

Constantly Evolving Music Business: Stay Independent vs. Sign to a Label: Artist's Point of View

Sampo Winberg

Author(s) Sampo Winberg	
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<p>The mark of an artist making it in music industry, throughout its relatively short history, has always been a record deal. It is a ticket to fame and seen as the only way to make a living with your music. Most artist would accept a record deal without hesitating. Being an artist myself I fall into the same category, at least before conducting this research.</p> <p>As we know record labels tend to take a decent chunk of artists' revenues. Goal of this thesis is to find out ways how a modern-day artist makes money, and can it be done so that it would be better to remain as an independent artist. What is the difference in volume that artist needs without a label vs. with a label? Can you get enough exposure and make enough money that you can manage without a record label?</p> <p>Technology has been and still is the single most important thing when it comes to the evolution of the music industry. New innovations are made possible by constant technological development and they've revolutionized the industry many times. First it was vinyl, then CD, MTV, Napster, iTunes, Spotify etc. Development has opened up new possibilities for independent artists. Recording, distribution and marketing have become possible for everyone. "Evolution of Music Business" -chapter will be going through the major changes that have shaped the industry to its current state.</p> <p>Today's artists' need to have many sources of income. After piracy and downloading services almost killed all record sales in the early 2000s, artists' revenue streams needed to diversify. Streaming has become the most popular way to consume music and people pay for access to music rather than owning it. As streaming royalties usually don't leave artists with enough money they are forced to look elsewhere. "Artist's Revenue Streams" -chapter goes through the main sources of income today's artists have and presents the differences signed and independent artists have in their income streams.</p> <p>To conclude the research, I'll be evaluating whether it still makes sense to sign a record deal or would it be better to remain as an independent artist.</p>	
Keywords Music industry, Record Labels, Independent Artists, Business Models, Artist's Income	

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1 Introduction

"The only industry in which after, you pay off the mortgage, the bank still owns the house."

- U.S Senator Orrin Hatch

Music industry has gone through many drastic changes during the last 100 years and is constantly evolving. It's regarded as one of the most unpredictable industries in the global business world. This creates both, challenges and opportunities for artists and companies trying to make it in the field. Business models must continuously adapt to technological change. And the changes affect everything, distribution, marketing, artists management etc. Despite the ever-changing business models one thing hasn't changed, artists are aiming to get signed by labels. (Tschmuck 2017; IFPI 2014)

In this thesis I'll look in to the business side of the industry and do so from an artist's point of view. First going through the most important changes during the last century, how the business has changed and how relationships between artists, record labels and consumers have evolved. With the changes in the industry and new possibilities created through digitalization, there are more ways than ever for artists to reach global audiences even on their own.

Music industry's economic structure has changed noticeably in the last 15 years. Biggest factor being digitalization and how consumers consume music. Nowadays consumers pay for access rather than ownership. People listen to music on the go and want to be able to do so whenever they want. Music is available on streaming services (Spotify, Apple Music, Tidal etc.) and easily accessible on phones, computers etc. so the need for a physical CD is no longer existent. CD's and LP's have become more of a collector item for fans, rather than being used to listen to music.

One thing that technology hasn't been able to replace is the artist. That dreamy kid in his bedroom still has a chance of making it. Even though technology is taking over in many areas of the industry, ability to write songs and the human element that resonate around the world is still the most important thing in music. That said, technology and digitalization has made it possible for anyone to be an artist and get their music heard. Is there a way for an independent artist to take advantage of these new possibilities and change the age-old formula of the industry? Can artists make it without a record label?

1.1 Approach, Research Problem & Objective

Being an independent artist myself, following industry's trends and changes is somewhat of an every-day thing for me. I've been writing, producing and releasing music independently for the past 2 ½ years. In those short 2-3 years I've seen many sides to the industry and seen how people function in the independent music scene. I was a part of an Electro-Indie band "Runaway Zoo" for a few years, until the Spring of 2018. Now a part of Indie Rave act "Where" and soon to be releasing music as a solo act as well. "Runaway Zoo" and "Where" have released a combined total of 10 songs. Both acts have been featured on a Finnish radio station YleX and their songs have been streamed over 500 000 times on different streaming services. This without any outside help from record labels or other parties. This got me thinking; is a record label necessary to succeed in the modern music industry?

My objective is to find out what are the possibilities as a modern day independent artist. Doing this mainly as a desk research made most sense to me. I'm using the knowledge I've gathered over the years working in the industry as a basis for the research. Meaning that I know what the key elements for an artist these days are. I'll be digging deeper into those key elements by gathering information from hundreds of online articles, books and statistics. To accompany the desk research, I'll be using panels and interviews I attended at "Slush Music 2017" as an additional source for some chapters. The research problem and objective can be summarized into these questions;

- Do artists still need record labels? And for what?
- Can artists function without them?
- Is it possible to make a living as an independent artist?
- Can it be more profitable to remain as an independent artist?
- Is it realistically possible to achieve same levels of success being independent as being signed?

1.2 Research Methods

Desk or secondary research means using already existing data others have collected to conduct a research. Examining and collecting information from various sources and then comparing the data can be done with limited resources. Desk research often offers a possibility to gather data that is not possible to get using primary research methods. Most common sources used when conducting a desk research are; books, articles, news, academic papers, statistic databases plus various other online sources. When conducting a desk research, source criticism is very important. Especially the credibility of all online sources need to be somehow verified. (Do; Management Study Guide; Stewart & Kamins 1993)

Desk research consists of 4 stages:

- Identifying the subject of research and sources where information is collected
- Collecting the information
- Comparing found data from different sources
- Analyzing the data

According to Thuy Linh Do in the beginning of a desk research the researcher should narrow down the topic by preparing a list of questions that he wants answers to.

This thesis is done mainly as a desk research. Desk research made most sense to me as it gives the possibility to search up-to-date information online and compare found data with each other. This way I'm not reliant only on couple sources, like I'd be if conducting for example interviews. There is so much information available online these days that surely all data needed for this research is found online. Some data would be hard or even impossible to find out without using secondary sources. Interviews with relevant people who'd know things needed for this research are out of my reach so, I need to rely on that valid information about record labels and artists can be found online. Plus, this research deals with a global music industry so sources from various geographical locations are welcome. To only be limited to Finnish would considerably weaken the research.

Other research method I'm using in this thesis is structured or systematic observation. In structured observation data collection is done "using specific variables and pre-defined schedule". (Research Methodology) Structured observation is useful when trying to understand a specific process, situation, event or behaviour. Researcher need to be selective when using structured observation. Researchers focus should be on what is relevant for

the ongoing research. Structured observation provides researcher with direct information that might be unattainable using other research methods. Researcher need to be careful of misinterpreting observed subject and it is often good to have recorded data of the observed situation. (Kalpesh 2013)

I ended up using this method sort of by accident as in November of 2017 I got an opportunity to go work at “Slush Music”. At the event there were panels and interviews with music industry professionals happening on stage. Some of the topics were closely linked with the research I was conducting so I took some notes from those to accompany the desk research.

1.2.1 Research Plan

My initial plan was to conduct this research solely as a desk research. I was to find a couple relevant books where I'd get reliable basic information of record labels, record deals and how artist's revenue streams are affected by them. To understand how the industry has evolved to its current state I wanted to go through history of the modern music industry. Trying to find the biggest changes and phenomena in the last century and how they have affected record labels' and artists' status in the industry. There was no crystal-clear plan from the start on how the end result should look like. We made a basic structure of the thesis with my thesis coordinator after a few weeks of research. That included aspects of the industry I wanted, and needed, to investigate but quite a few new points emerged during the research. I ended up using way more online sources than I thought I would as relevant literature was hard to find. Most time-consuming phase of the research was scrolling through countless online articles and writings. I needed to find a few different sources for each piece of data I collected to be able to consider it valid. Plus, I jumped between subjects quite a lot as I lacked a clear plan what I wanted for each individual subject. So, in the end the final structure took shape in the last couple weeks of research as I had gone through all the needed points. Having a clear plan right from the beginning probably would have saved me a lot of time and effort, but the final version is pretty much what I aimed for.

1.3 Record Labels & Record Deals

In September 2014 International Federation of the Phonographic Industry (IFPI) conducted a research with The Unsigned Guide, a UK based music industry contact directory, regarding artists in UK. According to their research seven out of ten artists in the United Kingdom want to be signed by a record label. (IFPI 2014) So what does a record deal mean?

When signing a record deal artist gives up rights to a record label that originally was his/hers. Which, and to what extent, rights are relinquished, depends on the contract. Under a record deal, record label restricts artist's latitude. If a record deal is exclusive, artist has no right to record songs for any other parties without label's permission. Another way is to restrict artists actions in pre-agreed contexts and assemblies.

Giving up rights to recordings is another part of the contract. Recordings and rights to those recordings made under contract are partially owned by the label. Labels pay for those rights with advance payments and royalties. Advance payments are usually meant to enable artists to focus on recording and rehearsing. Advance payments are recoupable, meaning labels will take back the money they've invested before artist can see any profit from sales of the made record. After label has recouped the invested money, from that moment on they'll pay a share of the sales, royalty, for the artist. This percent varies with every contract but is usually very low, especially for new artists.

According to IFPI major labels typically invest a total of \$500,000 – \$2,000,000 in a newly signed artist. This estimate is based on an average from IFPI member record labels. Each record deal is unique, and investments vary regionally. Below you can see a typical **major label** (see 1.4 Glossary) investment breakdown.

- **Advance** - \$50,000 – \$350,000
- **Recording** - \$150,000 – \$500,000
- **Video Production** - \$50,000 – \$300,000
- **Tour Support** - \$50,000 – \$150,000
- **Marketing & Promotion** – \$200,000 – \$700,000

Bigger **indie labels** (see 1.4 Glossary) are financially solid and can offer artists advances and support. Size of investments are significantly smaller than what majors can offer. Smaller indie labels can't afford to offer their artist's adequate advances and support. Often artists need to remain financially involved in their career.

Length of the contract is usually tied to success and viability. Contract is evaluated after seeing how well artist's released recordings perform. Labels usually have an option for future albums. If sales of the recording don't live up to set expectations, labels can terminate the contract. Even when a contract runs out or is terminated, both parties may still have obligations to one another.

Artist's main obligation to the label is making records. Record label's main obligation is to release, distribute and market those records, then pay the agreed royalty payments. There are mainly five types of record deals. Different types usually include all things mentioned above. What varies are productional and financial aspects. In some, artist have more responsibilities, in some, label takes care of everything etc. These five types are displayed in the table below. (Karhumaa, Lehtman & Nikula 2010, 63-75; IFPI 2018; McDonald 2018 a.)

Table 1. Different types of record deals (Karhumaa & al. 2010, 75)

Type of Deal	Production	Marketing	Distribution
Artist Deal	Label	Label	Label
Master Deal	Artist	Label	Label
Co-op Deal	Artist / Label	Artist / Label	Label
License Deal	Artist / Label	Licentiate	Licentiate
Distribution Deal	Artist / Label	Artist / Label	Distributor

1.4 Glossary

Unsigned/Independent Artist – Artist that is not signed to a record label.

Signed Artist – Artist that is signed to a record label.

Music Streaming Service – A service that allows its users to listen to music instantly when connected to internet (Spotify, Apple Music etc.).

Major Label – Term used for record labels that dominate the industry.

Indie Label – Independent record labels that are not connected or distributed by major labels. That said, many of today's indie labels operate under major labels and are distributed by them.

Production – Process of recording a record.

Record Producer – Is in charge of the recording process, arrangements, sounds etc.

2 Evolution of Music Business

Although music's been around in some forms for thousands of years, as a business it started to take form in the beginning of the 20th century. History of music business is relatively short, and it seems that every decade there's a drastic shift that change the industry as a whole. In this chapter I'll be going through the major changes and milestones of the last 100 years or so and how they've changed the industry. This is an important part to understand the industry, how it has evolved to its current state and what possibilities have emerged due to technological development. During this chapter I'm trying to find an answer to two main questions of the research problem:

- Do artists still need record labels? And for what?
- Can artists function without them?

"Technology has long been the driver of growth in the music business from the invention of lacquers, eight-track players, vinyl, cassettes and CDs." – Troy Carter

2.1 Early Years

Start of the 20th century was a time of sheet music. Sheet music outsold records which meant that most music people heard in their homes or in public, was played live. Musicians didn't make their living from records. Records were seen just as a way to promote sheet music. Often, they were only released after the sale of song's sheet music had dropped. Records were becoming more and more popular and by the 1920s there were over 100 million records sold worldwide. Even so, sheet music and live performances were the main source of income for musicians. In the early 1900s only the most popular musicians received royalties for their music. But in 1909 the U.S congress passed a new copyright law that ensured royalty payments, from records and sheet music, for songwriters and publishers. In the UK a similar copyright act passed in 1911. Such payments were collected by various companies. In the States by American Society of Composers, Authors and Publishers (ASCAP), In the UK by Mechanical Copyright Protection Society Limited (MCPS) and Performance Rights Society (PRS). Royalties for live performances wasn't received in the US at that time. Just to give you an example; Enrico Caruso, a famous opera singer, got about 30-40% royalty of his record sales. He made about \$5 million in 16 years and encouraged more players in to the field as he was a clear indication that you could make a decent living being a musician. (Harris)

2.2 Broadcasters vs. Royalties

Major record companies like Victor, Brunswick and Columbia had established their position in the field during 1930s and 1940s. The industry itself had major problems with copyright companies like ASCAP battling with radio broadcasters for royalty payments. ASCAP was outlawed in many states as it was claimed to be a monopoly by the broadcasters. In 1939 Broadcast Music Incorporated (BMI), a rival to ASCAP, was founded and gained exposure collecting royalties for those who had been overlooked by their rival. Still the difficulties continued and got to a point that in 1942 the American Federation of Musicians called a strike that lasted over 2 years. These problems canceled the development in technology and stalled economic rise in the industry -> The US music market had nearly the same value in 1945 as it had in 1920. (Harris)

2.3 Vinyl, TV & Payola

"Maybe the radio broadcasters weren't too far wrong when they claimed that playing records was tantamount to advertising; something for which people are used to paying." - Jonathan Harris

Prior to World War II promotion of music relied on record sales, radio airplay and jukeboxes. After WWII communication possibilities had developed significantly and advertising became faster, easier and cheaper. The introduction of vinyl LP and single cut the cost of making records. This attracted independent companies to the market in 1950s. By 1955 major companies' market share in the US had dropped about 20%, still having about 75% market share though.

Due to their inability to evolve, make new music and the rise of independent companies forced major labels to take drastic actions. As the number of TV sets in America (over 20million in 1952) was growing rapidly, advertisers began using TV instead of radio. Record companies negotiated deals with TV and film networks to make sure it was music that was made under their label that featured in commercials and movies. Record retailers were pressured not to sell records made by other companies. Radio DJ's were bribed to play their records (hence the word payola) and jukebox network was controlled using organized crime. (Harris)

2.4 Rock 'n Roll Revolution

Despite actions taken by the major companies the rise of independents continued. By 1957 market share of majors had dropped to less than 40%. Reduced production costs helped but the main reason independent firms took over half of the market was the music they sold. Rock 'n roll was here. They introduced the likes of Chuck Berry, Little Richard, Jerry Lee Lewis and Elvis and people went crazy. Majors thought of rock 'n roll as a trend that was quickly going to fade away. Instead of attracting new talent majors reacted to the phenomena by reducing prices and producing more profitable LPs instead of singles. By 1960 major companies had less than 30% market share.

In 1960s there was a change of emphasis in the industry. Instead of making someone a star with heavy promotion, future stars were scouted by companies' A&R people. Record companies realized they were recording agencies managing artists, instead of just record manufacturers selling records. (Harris)

During the 50s artists were normally paid around a 5% royalty of record's retail price and it was only paid on 90% of the sales. Due to growing popularity of rock 'n roll in the 60s, royalty percentages began to slowly rise. By mid-70s typical royalty rate was around 8%. Quite a drastic drop from the 30-40 royalty percentage Enrico Caruso had in the beginning of the century. (Hull 1998, 146-147)

2.5 Age of MTV

Growth in US economy in the 80's was reflected into music industry as well. A new format, Compact Disk, better known as CD, was introduced to the public in 1982. In its first years the sales were quite modest compared to cassettes and LP's but by 1987 CD's were the number one selling music format. (Saccone 2003) CD's were much more profitable for record companies compared to the old formats. Prices of CD players dropped as well, and consumers started updating their old LP collections into CD's. Record companies reacted to the trend by re-releasing their existing catalogues of music in the new format. This sparked a change in the profit structure of record companies. Profits shifted from manufacturing and distributing into exploiting copyrights of already released recordings. (Burnett 1996; Qualen 1985)

In 1981 MTV aka. Music Television aired its first music video "Video Killed the Radio Star" by "The Buggies". It became an instant classic, and like its name suggests, this was a major turning point for artists, record companies and the whole industry. (Williams 2017)

Looks and image became much more prominent at this point. Record companies and artists had to invest huge sums into music video productions. For the labels MTV was basically a free form of advertising that reached millions of people in an instant. Labels didn't have to pay to get their videos aired and production costs of the videos were deducted from artists' future royalties. In a couple of years MTV became a major marketing tool record companies. Getting videos played on MTV was a major boost for artists' radio play, record sales, fan base and their whole career. (Saccoone 2003)

Early concept of brand collaboration came to life in the 80s. For their 1981-1982 world tour "The Rolling Stones" cooperated with a cosmetics giant "Jovan". Jovan sponsored Rolling Stones' touring costs in exchange for exposure in the tour's promotional produce. (Appendix 1) (3.7.1 Brand Collaborations & Sponsor Deals) (Saccoone 2003)

By the mid-nineties MTV had spawned many globally successful music TV channels such as VH1, MTV2, MTV Hits etc. New channels were established so MTV was able to produce more content and to cover different music genres that was emerging in form of Hip-Hop and Grunge. Grunge was born in early 90s in Seattle. The likes of Nirvana and Soundgarden turned this dark and somewhat unwanted scene into an international sensation and became the voice of the youth at that time. The rise of the Grunge scene helped many independent record labels emerge which made less commercial bands more popular. Even so, over 80% of the market was controlled by six major record companies or the "Big-Six". (Saccoone 2003)

2.6 Piracy & New Business Models

Copying and distributing copyright-protected music illegally became a massive phenomenon in the late 90s and early 2000s. Piracy brought the music industry to its knees. Online file-sharing services like Napster and BitTorrent allowed consumers to download endless catalogues of music for free. Globally annual music sales dropped over 2\$ billion within three years, 1999-2002. Piracy, even though being illegal, forced changes in the industry. Alongside the traditional business model, which relies on mass production and distribution of records, formed new models. (Witt 2015) (Vaccaro & Cohn 2004)

2.6.1 Renegade P2P

Renegade P2P (Peer-to-peer) business model is based on illegal distribution of music through services like Napster, Kazoo etc. These types of services function sort of like record labels as they distribute music to the masses. Millions of people download music from these services for free, and no royalties or any other payments are made to records labels or artists. Labels issued many lawsuits against the likes of Napster and Kazaa in the first years of the 21st century. The phenomenon was huge, Napster had 60 million users worldwide before it was shut down by the US court in 2001 and “Kazaa Media” was the most downloaded software with more than 230 million downloads. (Vaccaro & Cohn 2004)

2.6.2 Online Downloading Services

First legitimate downloading services were introduced back in 1995. But it was Apple in 2003 that had the first successful one; iTunes. Apple provided consumers with a possibility to purchase single songs and albums through iTunes. Single song download cost \$0.99 and it included the rights for personal use. Consumers were legally entitled to burn purchased MP3's into CD's and load them into portable music players without restrictions. When iTunes launched it featured approximately 200 000 songs. Apple managed to get all the biggest record companies (BMG, EMI, Sony Music Entertainment, Universal and Warner) onboard. In the first week over 1 million songs were bought from the store but still in 2003-2004 legal downloading had nowhere near the volume that the illegal services had. (Vaccaro & Cohn, 2004; Chen 2010; Apple 2003)

For artists downloading services didn't offer much of a possibility to earn money. Downloads though illegal services didn't make them a dime and downloads though legal services, well there were more middlemen to mooch off the sales. iTunes took and still takes 30% of each sale, labels take about a 40-60% cut, depending on the contract. So, a signed artist is usually left with a cut around 20%, many times even less. (Appendix 2) (3.3 Mechanical Royalties) (Dredge 2015; Investigating Answers)

2.6.3 Commercials

“...suddenly licensing became seen as not simply an extra source of revenue, but a way to break an artist” - Bethany Klein

In 2000, electronic artist Moby was behind one of the biggest stories in the music industry. His rise to fame was behind clever marketing tactics. Moby as an artist had never achieved mainstream success or sold too many albums before his album “Play” found its way to the top of pop charts. The album’s tracks were licensed to Volkswagen, Nissan and American Express commercials, to name a few. His tracks featuring in multiple commercials led to airplay on major radio stations and the album went on to sold millions of copies. Licensing music to be used in commercials wasn’t of course a new phenomenon. In the 1980s and 1990s tracks that were licensed were big hits by already famous artists. Shift towards using new artists in commercials happened during the 1990s but it was after Moby’s success story, that licensing was seen as a valid way for record labels to break new artists to the mainstream audience. (Klein 2008)

2.6.4 360° Deals

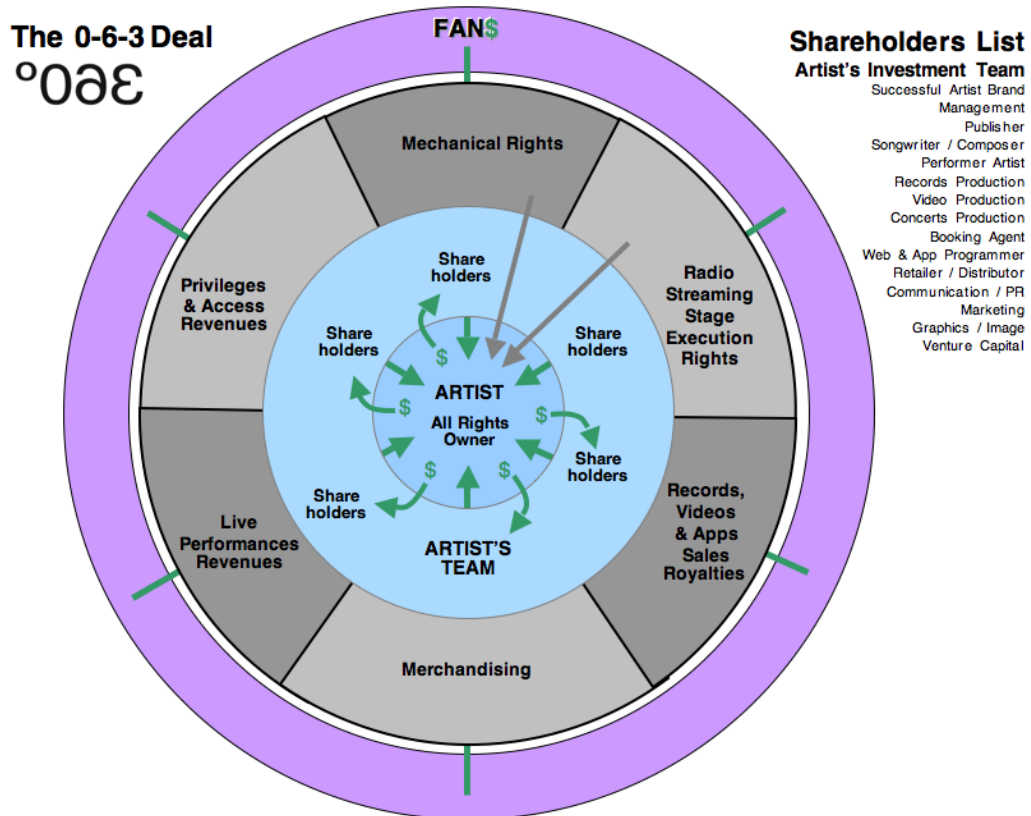
Due to the rise of downloading services many artists started earning more money off touring and other merchandise. Record sales weren’t the number one source of income anymore. Record labels reacted to this and started offering artists so called ‘360° deals’. In a 360° deal the artist offer a share of their future earnings in exchange for financial support. 360° deal means that labels get a share of basically everything that the artist does not just record sales. Of course, this not being the case if a label has had nothing to do with a certain activity. In a ‘traditional record deal’ the label would get their share of record sales but with a 360° deal they get a share of concerts, tours, digital sales, merchandise, endorsement deals, movie and game appearances etc. on top of record sales.

Share that record labels take from non-recorded income generally varies anywhere between 1-50%. Typical industry standard is 5-35% of net income. According to entertainment attorney Elliot Resnick, in a standard ‘360-deal’ record label’s shares of artists non-recorded income are; (Gordon 2013; McDonald 2018 b.)

- 50% of merchandise
- 25% of touring & live performances
- 25% of sponsor deals
- 25% of any other income from the entertainment business

“In exchange for getting a bigger cut from the artists they represent, the labels say they will commit to promoting the artist for a longer period of time and will actively try and develop new opportunities for them. In essence, the label will function as a pseudo-manager and look after the artist's entire career rather than only focusing on selling records.” - Heather McDonald

Figure 1: Money Flow in a 360° Record Deal



Writeopinions.com

2.7 Digitalization & DIY Tools

Record companies were very cautious after the boom of piracy. They were forced to reduce their catalogues and not many risks were taken. Labels had to cut their recording costs with the expense of their artists. Many artists no longer received financial support from their label, therefore, had to review their strategies. (Campos 2012)

Digitalization opened possibilities for new types of business models in the industry. Many companies emerged in a form of online stores, distributing services, social networks etc.

They offered artists a possibility to do things that in the past were usually done by record companies. Now independent artists were able to get their music into online stores and services through independent distributors. Social media offered them a chance to reach global audiences and target niche markets. Merchandise could be sold directly to customers through artist's own website. Artists were able to create their own business models, get rid of middlemen and function using the same tools record labels use, without a record label. Through these innovations Artist-to-Fan communication, sales and marketing became an essential part of business for independent artists as well. These Do-It-Yourself (DIY) tools led to a new era in the music industry. (Campos 2012; Owsinski 2009)

"You can have kid make a dance hit on a laptop" - Deadmau5, 2016

Through the developments in technology, production and distribution costs have dropped. A starting artist often produces their music on their own as it can be done basically anywhere with very little equipment. Getting your music into global distribution channels like Spotify and YouTube is just a few clicks away. This has made it easier for upcoming independent artists to be a player in the global music field, but on the other hand, made it more difficult to stand out. Everyone has the same tools at hand so the number of fellow musicians competing for listeners is endless. (Karhumaa & al. 2010, 19-20)

When comparing business models of an independent artists in the 1990s and one in the digital era, you can see that there are much more possibilities for the today's independent artist. The gap between signed artist and independent artist has narrowed significantly. (Figure 2 & 3) (Tupinamba 2012)

Figure 2: Independent Artist's Business Model in the 1990s



Figure 3: Independent Artist's Business Model in the Digital Era



2.7.1 Online Music Distribution – Example CD Baby

Online distribution services like 'CD Baby' offer independent artists and their music a possibility of world-wide distribution. Through an online distributor's website, you can get songs into online music stores like iTunes and Amazon and into streaming services like Spotify, Deezer and Apple Music. CD Baby started as an online CD store back in 1998 and has evolved with the industry, and technology, into the largest global digital distributor of independent music. They represent over 650 000 recording artists and over 7 million tracks. They've paid over \$500 million dollars of royalties, licencing fees, digital streams and sales etc. to independent artists and labels. CD Baby offers three type of distribution options; Free, Standard and Pro. Free option offers a change to sell songs on CDBaby.com. Standard distribution for single costs \$9.99 and \$49 for album. With Standard distribution CD baby offers world-wide distribution into online stores and streaming services, YouTube monetizing and sync licensing for films, games and TV. Pro distribution (\$34.45 / single & \$89 / album) adds to those by collecting publishing royalties. (CD Baby 2018)

CD Baby takes 9% from all the digital sales. Plus, additional percentage that, for example, iTunes, other online stores and streaming services take, which is usually around 20-30%. These online distribution sites get music into same services as record companies do but only take a small percentage off the sales compared to labels that usually take over a five times bigger cut. (Appendix 2)

2.7.2 Social Media

Through social media one individual can connect with millions of others around the world. Internet based platforms such as Instagram, Facebook, Twitter, Snapchat have billions of users world-wide. (Statista.com 2017) Social media has changed the way people interact with each other and have had a massive impact on the music industry. It has become the most important channel for advertising and marketing. Social media presence is essential for artists. Especially independent artists have found social media to be almost as important as their music, in some cases even more important. (Knights 2018)

Gaining a notable follower count on social media can be turned into success in the music industry. Especially here in Finland the likes of Benjamin Peltonen, Arttu Lindeman and SAARA have all started building their fan base and brand through social media. If you already have thousands of followers on Instagram, YouTube etc. you know they will listen, most likely love, and most importantly share things you do.

Social media platforms provide helpful tools to artists. With these tools artists can see data of their fans, how they behave and react to posts, age and gender of followers etc. This data helps artists to create effective marketing campaigns, boost merch sales, plan shows and tours. (see 3.6.4 Social Media & Streaming Service Demographics)

2.7.3 YouTube

YouTube is a free video sharing website. It was originally launched in 2005 and has since become the 2nd most visited website in the world. Number of videos you can find on YouTube is massive. Over 300 hours of video content is uploaded to YouTube every single minute of every single day. YouTube has over 1,300,000,000 users and the site is visited by over 30 million people daily. Over 3 billion hours of videos are watched on YouTube every month. (Fortunelords.com) YouTube was created so people could share videos to each other and create original content to other users of the website. Nowadays YouTube has become a massive marketing tool for companies around the world. Everyone wants to create a “viral video” that is shared by sites users to reach millions of people on different social media platforms around the globe. (O’Neill) Record labels and artists use the site as a promotional tool as well. Music videos, tour videos, behind the scenes material and live performances are ways to give fans something more than just an audio tracks you can listen to on streaming services. Sites users also have an opportunity to leave comments on the video, so fans can interact with the artist and each other.

YouTube as a Platform for Success

Youtuber is “*a frequent user of the video-sharing website YouTube, especially someone who produces and appears in videos on the site.*” (Dictionary.com)

YouTubers have become a massive phenomenon amongst youth in the last few years. Popular YouTubers are able to make their living by just uploading videos on the site. Some of them have millions of views and subscribers. The most popular YouTuber, “PewDiePie” has over 60 million subscribers. (Socialblade.com) These people have become like modern-day rock stars that have millions of fans world-wide, sponsor deals and some of them even do show tours. YouTube has also been a starting platform for many artists. Below there’s two short examples.

EXAMPLE 1: 5 Seconds of Summer

An Australian boy band “5 Seconds of Summer” started by uploading acoustic covers into the site and built their fan base through these videos. The videos got so popular that eventually they were signed by Capitol Records. Since then they’ve had many hits on Billboard Top 100 –chart and been streamed over 600 million times on Spotify. (Briones 2016)

EXAMPLE 2: SAARA

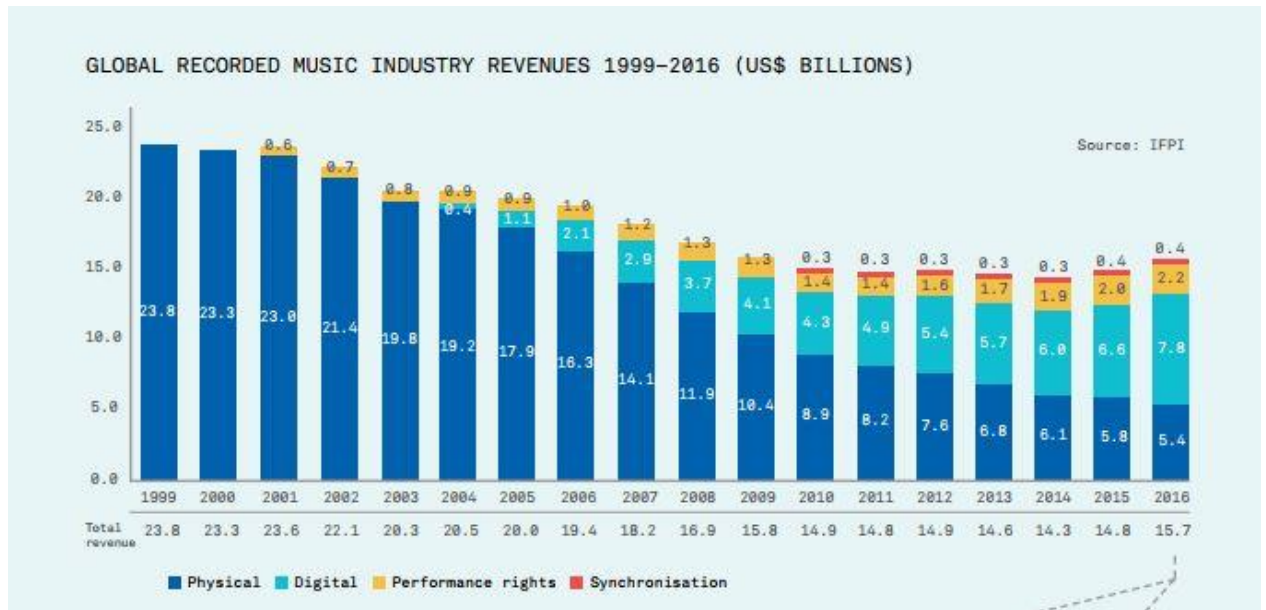
A Finnish YouTuber/Artist Sara Maria Forsberg, now known as SAARA, who’s responsible for the famous “What Languages Sound Like to Foreigners” video. This particular video went viral in 2014 and brought hundreds of thousands of subscribers for Sara. After this explosion of her follower base she was signed by an American record label even though her videos had nothing to do with music.

2.8 Streaming Era

Music streaming has become the most popular way to consume music. (EDM Sauce 2017) This audio streaming method has changed consumers’ relation to music as they now pay for access instead of ownership. (Mulligan 2015) Streaming services like Spotify, Apple Music, Pandora and Tidal provide customers with a huge catalogue of music available on desktops, mobile phones, tablets, TVs, gaming consoles etc. With a click of a button you can choose your favourite songs to listen to without downloading any files. The streaming process works through internet connection. Streaming application delivers small packets of data that is buffered on the used device. As long as there’s a stable internet connection, consumers are able to listen to any song, right away, without any interruptions. (Harris 2017)

Global music industry revenues had been in decline since piracy took over the industry in the late 1990s. 2015 was the first year in over a decade that the industry saw growth. (Figure 4) Streaming is seen as the saviour of the whole industry and in 2017 it hit a milestone of 100 million paid subscribers world-wide across all the different services. As physical music consumption is constantly decreasing, and more and more people tend to favour streaming instead of downloading, streaming revenues are expected to double by 2020. Many experts and analysts are predicting a new ‘golden age’ in the industry. (Appendix 3 & 4) (Nicolaou 2017)

Figure 4: Global Music Industry Revenues 1999-2016



IFPI Global Music Report 2017

2.8.1 Spotify

Following Napster (1999) and iTunes (2003) Spotify's launch in 2008 can be seen as the third major turning point in the music industry in the digital era. Spotify is the most popular music streaming service in the world. It has over 140 million active users monthly, half of which are paying customers. (Statista.com 2017) (Appendix 5.) Spotify wasn't the first music streaming service that had been launched as there were many services, like 'Rhapsody' and 'Launchcast' before them. Spotify, however, was the first one that worked out buffering issues and streaming worked seamlessly. (Mulligan 2015) Spotify offers its users access to over 30 million songs from different artists and genres and do it for free. Spotify offer 'Free' subscription for free and 'Premium' subscription for \$9.99/month. Music catalogues are identical in both versions, difference being that in the Premium version there are no advertisement in between songs, better sound quality and a possibility to choose the songs you listen to on mobile devices. On the free version you can only choose to play certain artist or a playlist and have limited amount of song skips when listening on your phone.

2.8.2 Spotify Playlists

“Put your music into people’s consumption habits, whether it’s a playlist they listen to on the way to work, at the gym or just as part of their streaming library” – Jane Third

On Spotify anyone can make public playlists. You’ll find loads of different ones made by many various curators; some are curated by Spotify, some made by record companies, radio stations, blogs, artists and user-made playlists. The three biggest record labels in the world (in 2018) each have bought their own playlist brand. Sony Music Group (SMG) has ‘Filtr’, Universal Music Group (UMG) has ‘Digster’ and Warner Music Group (WMG) has ‘Topsify’. These lists are heavily promoted through Spotify ads and social media. Sony was the first of the majors who entered the playlist game. That can be seen in the number of followers. Their ‘Filtr’ –brand has around 4 million followers. UMG’s ‘Digster’ has approximately 2.6 million, and WMG’s ‘Topsify’ 1.2 million. These are big promotion tools for the majors. Songs featured on these lists are mostly from their own catalogues. Sony and Universal use over 70% of their own music, Warner 50-60%. Changes for an independent artist to get on the featured on these lists are slim to none. (Price 2015)

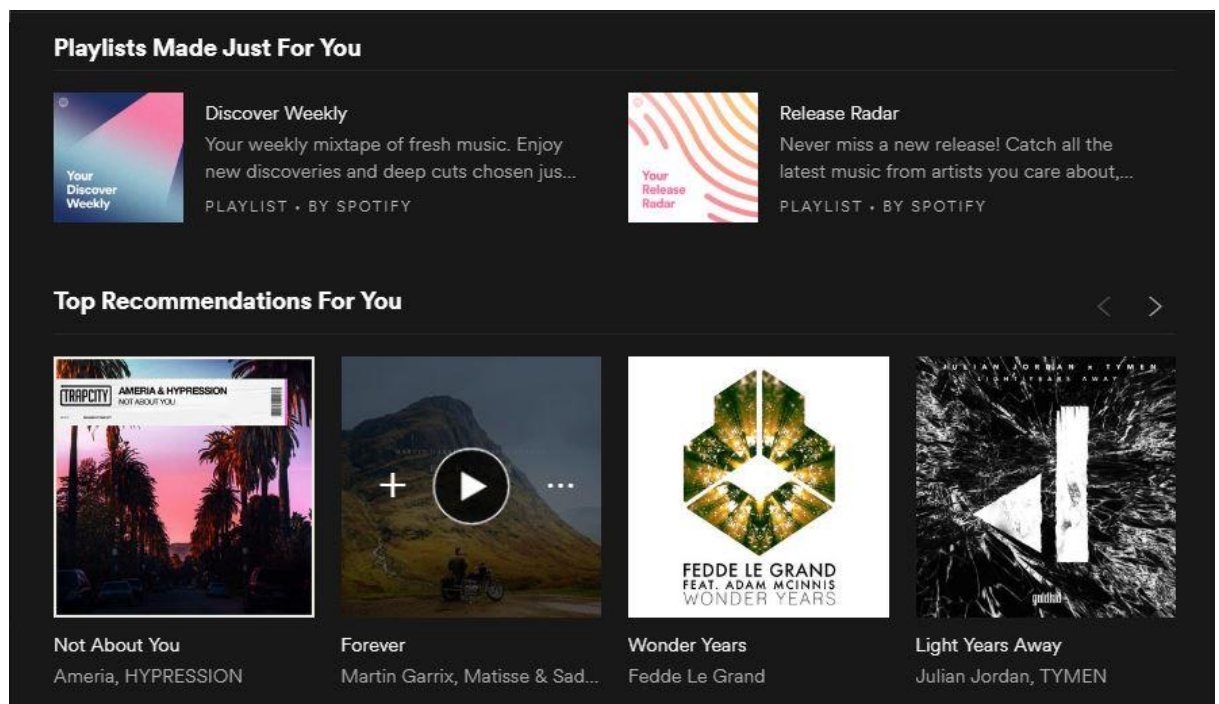
Playlists that are curated by Spotify are the most popular ones. They offer a change for anyone or any song to reach global audiences, if listeners like what they hear. Spotify has over 50 playlist curators that work in different regions and countries. Their job is to assemble playlists and decide which songs get featured on those lists. For example, in Finland there’s one curator, Jussi Mäntysaari, who’s in charge of the Finnish playlists you find on Spotify. (Vedenpää 2017) So if you can get your music heard by these playlist curators you have a change to get featured on these lists. Exposure on Spotify playlists nowadays is essential as people tend to find new music through these lists instead of searching for it by themselves. (Ellis-Petersen 2016) These lists have thousands of listeners, the most popular ones even millions. Spotify uses algorithms and data to determine whether a song works or doesn’t. If the song performs well, it’ll get featured on more and bigger playlists. For example, ‘Song X’ by ‘Artist X’ gets into a small regional playlist. Many listeners like it, save it to their personal playlists and replay the song, curators will put it on to different and bigger playlists. If the reception is as good on those lists, they’ll move it on to bigger ones and so on. Through this “chain of playlists” a good song can reach millions of listeners without any financial input. (Breitholtz & Seidefors November 2017)

In March 2015 the top 100 curated playlists on Spotify were followed by approximately 41 million people. Only 2.3 million (5.6%) of those were following lists made by 'Filtr', 'Topsify' or 'Digster'. User-made playlists were followed by 2.3 million people (5.4%). 'State of Trance Radio' by Armin Van Buuren was the only artist-made playlist in the top 100. The ones mentioned above and single playlist from 'BBC Playlister' were the only playlists on the top 100 not curated by Spotify. (Price 2015)

Personalized Playlists

Through their algorithms and daily collected data from people's listening behaviour Spotify creates personalized playlists for each user every week. These playlists help users find new music without searching for it.

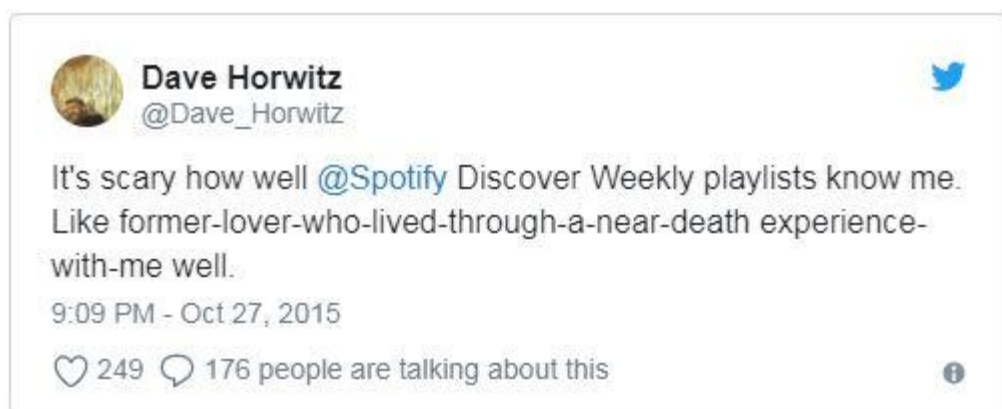
Figure 5: View of Spotify's Personalized Playlists



Discover Weekly

Playlist that presents music that Spotify thinks, or maybe even knows, you'd like. It's a weekly mixtape of songs you haven't heard yet, made just for you. Songs featured are chosen based on each user's listening preferences. What genres, artists, songs etc. users listen to, Spotify finds similar music. This personalized 30-song playlist was introduced back in 2015 and it's been a massive hit amongst Spotify users. Its popularity made Spotify invest more time and effort in to algorithm-based playlists. (Ciocca 2017) Through personal experience I can say that getting a track featured on people's Discover Weekly list can boost song's play count massively, gain a lot of new listeners and bring in profits.

Figure 6: Tweet by Dave Horwitz about Spotify's "Discover Weekly" -Playlist



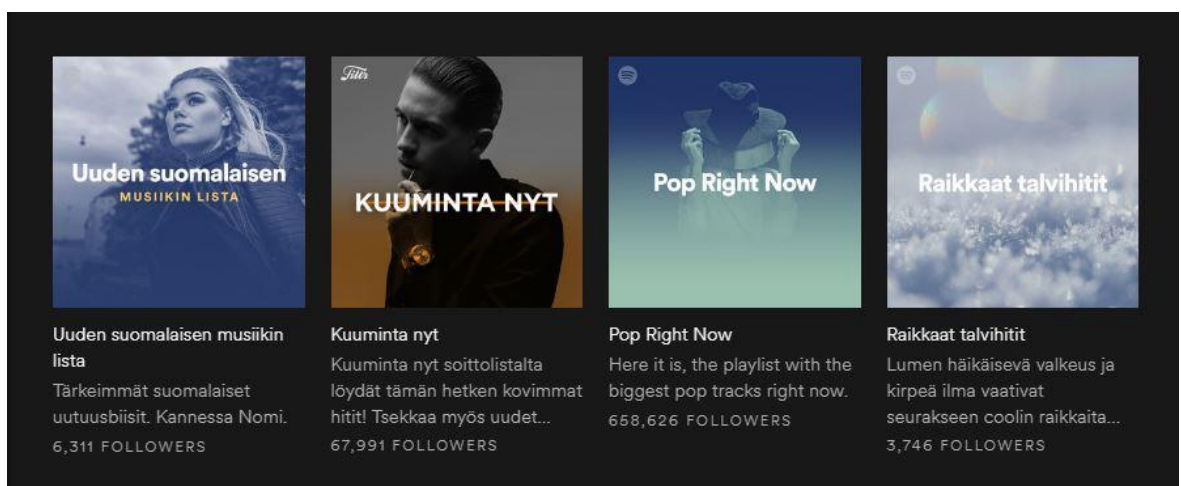
Release Radar

"Release Radar is trying to do more than just highlight new music from acts it knows you like." - Ben Popper 2016

Spotify offers its users a possibility to follow their favourite artists, much like in social media platforms. After clicking the follow button, users start receiving e-mail notifications whenever a followed artist releases new music or announces a show near your location. This is a very important feature especially for independent artists. A way to make sure that already existing fans won't miss any new activity. Getting people to follow your Spotify artist profile can be difficult. A way to get a new single to a broader audience is through Spotify's Release Radar. Release Radar is another algorithm-based playlist that gathers fresh music released in the previous two or three weeks. And not just putting together random new releases, Release Radar is tailor-made for each user, just like Discover Weekly.

According to Jane Third, the senior vice-president of an independent record label 'Because Music', Spotify playlists are becoming increasingly important in generating interest in tracks. Jane sees that getting featured on playlists are nowadays as essential as radio airplay. Independent and major labels use playlists as a major marketing tool when promoting songs and artists. Record companies have even hired "streaming pluggers" who push and promote songs, so they'd get picked for the best playlists. According to a Billboard article published on August 2015 "pay for play" is "definitely happening". Their source suggests that prices for playlist feature range from \$2000 to \$10 000 dollars, depending on the popularity of the list. These actions are very similar that are used to sway radio stations to play their songs. Same thing the majors have been doing since the 'payola' phenomena in the 1950s. Under U.S law and The Federal Communications Commission (FCC) regulations paying for radio airplay (payola) is illegal but that doesn't apply to streaming services. (Ellis-Petersen 2016; Peoples 2015; Pelly 2017)

Figure 7: Spotify Playlists Curated by Spotify



"Theoretically, if you can strategically drop a track into enough playlists with enough followers, you might have the beginnings of a hit on your hands." - Chris Price

3 Artist's Revenue Streams

Revenue streams of musicians have diversified in the digital age. To be profitable, just making records and selling them isn't enough. Music needs to be licensed to be used in marketing and advertisements, broadcasting, movies, games etc. (O'Reilly, Larsen, Ku-backi, 2013) In this chapter I'm going through the most common revenue streams artists have in today's music industry. Whilst going through these sources of income my aim is to figure out:

- Is it possible to make a living as an independent artist?
- Can it be more profitable to remain as an independent artist?

3.1 Artist Managers

Just a quick word on managers before going into artists revenue streams. Manager's duty is to be the driving force and further artist's career behind the curtain. Manager is the one person artist can call anytime, anywhere with any problem or an idea, and their job is to take care of it. Making calls, negotiating deals, connecting with right people, selling, pitching and generally being a link between artist and other parties. Managers can even be involved with the artistic side as well and be a part in creating and evolving artist's brand. Relationships between managers and artists are usually long-term. For the work they do managers usually take a 10-20% cut of artists income. This varies with every contract and commission can be taken either from gross or net revenue. (Voogt 2018)

3.2 Performance Royalties

Whenever and wherever a piece of music is played in public, it is entitled to performance royalties. These royalties are collected by agencies that direct these royalties to the copyright holders. American Society of Composers, Authors and Publishers (ASCAP), Broadcast Music Incorporated (BMI) in the U.S and Society of European Stage Authors and Composers (SESAC) are the biggest performance royalty collecting agencies in the world. They have developed computerized logging and sampling procedures to make sure composers receive proper compensation when their music is used anywhere in the world. Smaller agencies from other countries work together with ASCAP, BMI and SESAC to ensure the ability to collect royalties all over the world. (Vogel 2011, 254-255)

Almost 60% of all performance royalties come from films, radio and TV. The amount of payment is determined by length and frequency of use as well as audience size. For an artist to receive these payments they must be a member of a performance rights organization (PRO). Usually countries have their own PROs, for example GEMA in Germany, PRS in the UK, JASRAC in Japan and Teosto in Finland. (Vogel 2011, 245-255)

3.3 Mechanical Royalties

Mechanical royalty is paid when a song is mechanically reproduced. For example, when a record company presses copies of albums, interactive streaming (Spotify, Apple Music etc.) occurs or a digital download is made, songwriter(s) are entitled to receive mechanical royalty payments. Whoever makes these mechanical copies are obligated to pay those royalties. Record labels usually make a deal of promotional copies with artists. This allows labels to press a certain amount of copies of a record without paying mechanical royalties. Songwriters must be registered to an agency that collects mechanical royalties and usually they're not collected by the same agencies that collect performance royalties. To make things even more complicated, if an artist/songwriter wants to collect mechanical royalties internationally, they must be registered to a mechanical royalty collecting organization in each country that has their music available. Record labels and publishers usually take care of this for. Most online distributors offer a service that takes care of this for independent artists. (McDonald 2018 c.; Purpora 2012)

Mechanical royalties typically account for around 50% of all publishing revenues. Songwriters are usually forced to split mechanical royalties with their publisher. Publisher is the company under the release of a piece of music is made, for example a record label. What percentage a publisher takes depends on the contract. With new songwriters split is usually around 20-25% for the writer, 75-80% for publisher. With more accomplished writers split is closer to 50/50. (McDonald 2018 c.; Vogel 2011)

In the US mechanical royalties are paid for each recorded copy of a song or per minute of playing time. In 2007 a statutory mechanical royalty rate for each recorded copy was 9.1 cents or 1.75 cents per minute played. Outside of US the amount of payment is a percentage of album's wholesale price to dealers. (Vogel 2011)

Royalty payments from most popular online streaming & download services:

- Streaming service Spotify pays approximately **\$0.0036** per stream (Runaway Zoo streaming statistics 2018)
- Streaming platform Apple Music pays approximately **\$0.064** per stream (McIntyre 2017)
- Streaming service Pandora pays approximately **\$0.00112** per stream (Runaway Zoo streaming statistics 2018)
- Streaming service Tidal pays approximately **\$0.0110** per stream (McIntyre 2017)
- Streaming service Deezer pays approximately **\$0.0056** per stream (McIntyre 2017)
- Downloading service iTunes pays **\$0.69** for **\$0.99** song download (Runaway Zoo download statistics 2018)

3.4 Licensing

Music licensing is licensed use of copyrighted music. TV shows, advertisements and movies are the most common platforms where licencing occurs. Songwriters and copyright holders are often paid well for the right to use their music. They usually receive payments up-front, as well as earning performance royalties when the piece of music is aired in its new format. The amount paid for the license varies a lot. For low-key TV usage (not playing in a major scene etc. more as a background music) licensing vary anywhere between free and couple thousand dollars. If featured in a film, licence could be worth \$10,000. Theme song for a movie could be worth more than \$50,000. If a song is licensed by a big international company to use in a commercial for example the license could be worth anywhere between \$25,000 - \$500,000 dollars. Of course, popularity of the song affects how much people are willing and asked to pay. Big TV shows, films and advertisements aren't the only source where songwriters and artists can license their music. YouTube channels, photographers, independent films makers, event videographers etc. are more accessible for independent songwriters. (Kettering 2017; Passman 1997)

Joyce Kettering is a music producer who's mainly focused on producing music that's to be licenced. She made a comparison on how much you need streams on streaming platforms like Spotify and Apple Music versus how many pieces of music you'd need to license to earn \$3000 dollars. To earn \$3000 dollars through streaming services you'd need close to 1 million streams. The chart below shows approximately how many songs you need to license to earn the same amount. (Kettering 2017)

Table 2: Number of licenced songs needed to generate \$3000

Projects	Unit Price	Sales Needed
YouTube Channel	\$20	150
Event photo/videographer	\$60	50
Indie Film Soundtrack	\$200	15
Indie Film Trailer	\$500	6
Corporate Video	\$1000	3
Advertisement	\$3000	1

(Kettering 2017)

All the sources presented in the chart are the usual licensees that independent artists and songwriters like Joyce herself gets their music licensed to. Prices are estimates based on what she's learned.

3.4.1 Master Use License

If a film or other artistic work's makers want to use a sound recording in their work, they'll need to get a master use license. Master Use License Agreement (aka. Master Use Licensing Contract) is made between the owner/owners of the recording and the producer of the film etc. The contract determines how the sound recording is used, compensation fee, screen credit and other things parties involved want to include. The contract also gives the right to perform the music in public. Just a Master Use License doesn't give the legal rights to use a recording/song in films or commercials. This needs to be paired with a Synchronization License. (Musicbed; Rocketlawyer)

3.4.2 Synchronization Royalties

Synchronization royalties or synchronization fees are paid when a copyrighted piece of music is synchronized with any visual media to create new artwork. For example, TV shows, movies, advertisements, YouTube and other videos on the internet etc. These royalties are usually negotiated between the parties involved. The amount of the synchronization fee is usually based on potential audience size, frequency of use and length of the used piece of music. Even though a synchronization fee is paid songwriters are still entitled to receive performance royalties once a video with synchronized piece of music is aired on TV or viewed on YouTube etc. (Vogel 2011; Musicbed; Soloveichik)

3.5 YouTube Monetization & Partner Program

YouTube partner program allows its users to make money through their video content. When you join the program, you allow YouTube to place ads on to your videos. Advertisers can buy ad space to be shown before or during videos. In February 2018 YouTube changed their policy for the partner program. Before, anyone was able to monetize their content but now YouTube has set limits and only those who have 1000+ subscribers and over 4000 watch hours in the last 12 months are able to join the program. (YouTube 2018)

How you can generate income from your YouTube content? Common assumption is that loads of views will make you lots of money. This is not totally accurate. How much YouTube or actually AdSense pays you, depends on ad engagement. (YouTube is monetized by AdSense, so, AdSense pays all advertising income generated on YouTube) Of course thousands or millions of views will help but it is possible to create income with a reasonable view count. AdSense operates on a CPM, (Cost per mille) basis = amount you'll get paid per thousand impressions. Advertisement clicks and over 30-second ad views count as an impression in this case. If your CPM rate is high you don't need millions of views to make good money. So how is your CPM rate determined?

What advertisers are willing to pay for ad clicks and impressions varies a lot. Most important factors being the advertised product, and where the impressions come from geographically. Advertisers of course pay more when the advertised product has a high end-return. Products with a higher end-return have a higher average CPC (cost per click). For an artist who's uploading content on YouTube, CPC means how much they get paid when someone clicks an ad that's been placed on their video. Keywords related to music tend to have a relatively low CPC as seen on the graph below. These are a fraction of CPCs that are related to finance, banking, loans etc. "Insurance" is the most expensive keyword with a CPC of 54.91\$ U.S dollars. (Appendix 6)

Figure 8: Screenshot displaying CTR and CPC of keywords used for YouTube marketing

<input type="checkbox"/> Keyword ↑	Ad group	Cost	CTR	Avg. CPC
<input type="checkbox"/> band merchandise	Ad group 1	€959.49	8.6%	€0.56
<input type="checkbox"/> concert tickets	Ad group 1	€141,609.28	10.6%	€0.67
<input type="checkbox"/> dj equipment	Ad group 1	€11,291.21	8.9%	€0.36
<input type="checkbox"/> merch store	Ad group 1	€413.07	6.6%	€0.67
<input type="checkbox"/> music festivals	Ad group 1	€8,925.23	6.1%	€0.58
<input type="checkbox"/> online clothing stores	Ad group 1	€35,341.32	9.1%	€0.58
<input type="checkbox"/> recording equipment	Ad group 1	€786.98	5.5%	€0.61
<input type="checkbox"/> rihanna merch	Ad group 1	€6.56	10.7%	€0.43
<input type="checkbox"/> rock am ring tickets	Ad group 1	€76.50	12.8%	€0.47
<input type="checkbox"/> studio equipment	Ad group 1	€1,224.19	7.1%	€0.53
<input type="checkbox"/> tomorrowland tickets	Ad group 1	€2,385.24	15.1%	€0.35

Click-through rate (CTR) is the number of clicks an ad receives divided by how many times the ad is shown. (Google 2018) For example, on the graph above keyword “Tomorrowland tickets” has a CTR of 15.1%. Meaning about 15 clicks per 100 times an ad is shown. Keywords with a high CTR are the ones you want your YouTube channel to be associated with. When an artist/YouTube channel has a targeted demographic, the amount of views needed to generate income decreases. Not to forget; YouTube/AdSense takes 30-50% of the money you make. Below you can see two scenarios that’ll demonstrate how CTR and CPC determine how much money you make.

These scenarios are hypothetical.

Scenario 1 Artist makes a music video that gets 200 000 views. Click-through rate (CTR) for the ads shown is 0,5%. This means 1000 people clicked the ad. Cost-per-click (CPC) is \$0,35 that means the total income for this scenario is \$350. Minus 30-50% what YouTube takes, this leaves the artists with \$175-\$245 payout. This means somewhere around \$0.001 per view.

Scenario 2 Artist makes a tutorial or behind the scenes video about how he made a certain song. In the tutorial he/she uses studio equipment and it is mostly viewed by producers and other artists who use and purchase studio gear. Video gets 15 000 views. Click-through rate (CTR) for studio equipment is 7.1% as seen on the graph above. Meaning 1065 people clicked the ad. Average cost-per-click (CPC) is \$0.63 (0,53€ as seen on the graph above). This means a total income of \$670.95. Minus the 30-50% leaves the artist with a \$335-\$470 payout. Somewhere around \$0,026 per view.

These scenarios are created to show the point and clarify how the partner program allows you to make money. Scenarios point out that the amount of money you make on YouTube has more to do with what advertisers pay for than how many views you get. With a targeted demographic and higher value keywords pay per view can be massively higher.

Another factor that determines the amount of money you make with YouTube partner program is location. Depending on the country where ad-clicks come from YouTube pays different amounts. CPM (cost-per mille) tends to be higher in wealthy countries; United States, Canada and big European countries like Germany, United Kingdom and Norway usually have a good CPM rate. Hungary, Georgia and Slovakia have the lowest CPM rates according to Digital Music News. So ideally, you'd want your videos to be popular in countries that have a high CPM rate. (Sanchez 2017)

- YouTube executive, former CEO of Warner Music Group Lyor Cohen says YouTube pays \$3 dollars per 1000 views
- According to RIAA (Recording Industry of America Association) YouTube pays around \$1,50 per 1000 views
- liB's (Information is Beautiful) calculations claim that the amount paid for 1000 views is \$0,60 dollars

I did research around 10 different sites and articles regarding CPM rates and how it is affected by views, targeted audience, location, advertised product etc. Even though there were similarities, there was no unambiguous truth on how the ad revenue accumulates and how said factors affect that. That said, it is difficult to estimate the amount of revenue you can generate through YouTube Partner Program. Just analyzing other user's data from articles can only give you a vague estimate. Only way you can precisely calculate how much money you can make, is to analyze your own results.

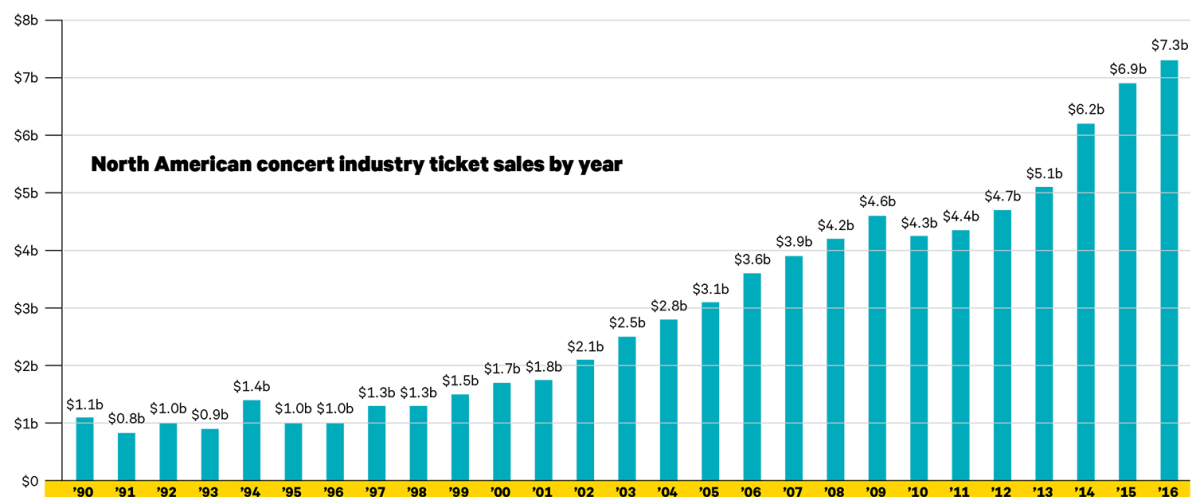
3.6 Shows & Touring

“Fans are still willing to pay for music, when it’s live” – Hannah Karp 2016

Playing songs for other people has been a part of musicians life since there’s been music. Even though the way people consume music, and the industry itself, has changed drastically, getting out on the road and playing in front of a live audience is still a vital part of artists livelihood, in most cases anyway. Due to popularity of streaming services people are not accustomed to paying for music they listen to on a daily basis. Pretty much all music is available on their smartphones and computers by using free services or paying a small monthly fee for paid streaming services. Live shows are something that people can’t fully experience online. (Erricco 2016; Karp 2016)

Live music industry has been booming for many years now. While other sectors of the industry were in decline for most of the 2000s concerts and live music saw significant growth. Below you can see a ticket sale graph of North American concert industry from 1990 until 2016. The growth’s been quite substantial. Same trend can be seen all over the world, not just in North America. Live Nation, the biggest event promoting/venue operator in the world hit over \$8 billion dollars in revenue in 2016. That’s more than than Universal and Sony, the two biggest record companies in the world combined. (DiMartino 2017)

Figure 9: North American concert industry ticket sales 1990-2016



“It used to be that you toured to help sell the record. Now the record helps support the tour” – Ray Waddel 2017

3.6.1 Signed

Consumer behavior and music consuming digitalized in the early 00s. Record labels started using 360° deals as a standard as they weren't making enough money selling records. Due to these changes artists often have to do more shows to be profitable for their record label and themselves. This way labels make up for lost profits as revenue generated from digital downloads and streaming is nowhere near the numbers made from physical record sales back in the 20th century. An upside to this is for the fans. As a result there are more shows and bigger festivals all over the world. (Erricco 2016)

Record labels usually finance their artists tours as they're still an important part of promotion. Touring gets artists in front of new people and creates awareness of their brand. Shows are a great opportunity to sell merchandise as well. Even though online stores provide the opportunity for fans to purchase merch at all times and anywhere, merchandise is important in order to make profits from touring. Sold merchandise not only bring in money but spread the word as people usually wear their t-shirts, caps, hoodies or whatever they decide to sell long after the show. The case with signed artists is that record labels want every dime back what they've invested in their artists. So if a label is financing a tour they will recoup their investment before artist can see any profits. Plus they'll take a percentage of the net profit. How much said percentage is, depends on the contract and varies with how popular artist is.

3.6.2 Independent

While a signed artist is usually backed up by their record label, independent artists usually take big financial risks while touring. Being an independent artists means that you'll be solely responsible for everything; booking shows, booking hotels, planning routes, getting from location A to B to C, setting up your own gear, selling merch, marketing etc. If you don't have the money to hire people to help out of course. Budgets need to be carefully planned in order to be profitable. How much and how artists get paid per show differs. There is no "minimum wage" that's required to pay. Amount paid is agreed on between artist and venue. Popularity is usually a defining factor on how much artists are paid. There's a possibility that venues offer a guaranteed pay per show. Meaning you'll get paid, for example, \$500 dollars a night no matter how many people attend the show. Oftentimes venues pay artists in a way that is dependable on how many tickets are sold. Artists split the ticket profits with the venue. What the split is depends on the agreement with artist and venue, usually 50/50. This can be hazardous for an artist. There's no guarantee that people will show up, especially if the artist don't have a solid fan base in cities the shows are taking place. (Lowery 2016; Kakin 2017)

3.6.3 Booking Agents & Agencies

Booking agents and booking agencies are responsible for arranging live shows. They negotiate deals, handle technical set-ups, take care of accommodation etc. Booking agents and agencies work regionally as markets and customs differ and local connections are needed in order to facilitate shows successfully. Bigger artists might have one head-agent who coordinates sub-agents around the world. If independent artists have a booking agent, they are usually involved with a booking agency that negotiates terms with venues. In some cases, especially with smaller and independent artists, manager acts as a booking agent and handles bookings and arrangements for live shows. Agents and agencies work on a commission basis and the usual cut they get from artist's performance fee is 10-15%. (Voogt 2018)

3.6.4 Social Media & Streaming Service Demographics

Almost 100% of today's artists are on social media. Maintaining active social media status and interacting with fans is not only important in order to grow your audience, but it helps to plan an efficient and profitable tour. Social media platforms like Instagram and Facebook provide their users with helpful tools that provide data of who's interacting with their accounts. As an example below you can see Facebook Insights of a Finnish independent band Runaway Zoo. (Facebook 2018; DYI Musician 2014)

Figure 10: Screenshot of Runaway Zoo's Facebook Insights (2018)



If social media is a norm for today's artists so are streaming services. In whatever online platform music is listened to data is collected. Online distributors and streaming services offer artists similar tools that where you can see the hotspots for your music. One of the most comprehensive tool is "Spotify for Artists". With this tool artists can manage their artist page on Spotify, write biographies, promote playlists and most importantly see who and where are people listening. (Spotify 2018; DYI Musician 2014) On figure 11 & 12 you can see examples from Runaway Zoo's Spotify for Artists -tool.

Figure 11: Spotify for Artist's -tool Screenshot of Top Countries for Runaway Zoo (2018)

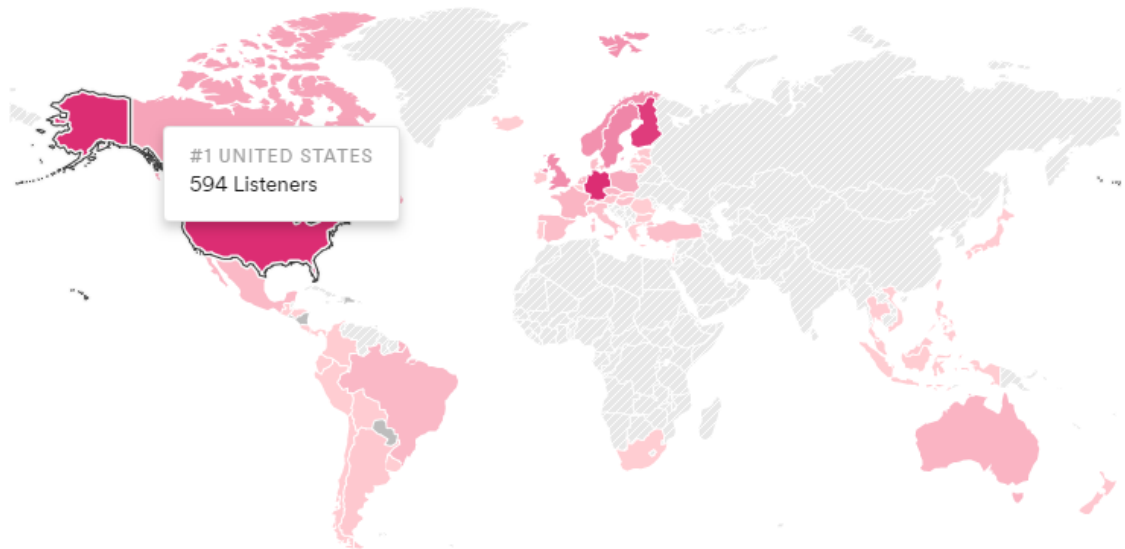


Figure 12: Spotify for Artist's -tool Screenshot of Top Cities for Runaway Zoo (2018)

Top cities

LISTENERS • LAST 28 DAYS

1	Helsinki	FI	142	26	Sao Paulo	BR	15
2	Oslo	NO	66	27	Göteborg	SE	15
3	Stockholm	SE	52	28	Toronto	CA	14
4	London	GB	47	29	San Francisco	US	14
5	Hamburg	DE	42	30	Frankfurt Am Main	DE	13

Comparing and finding similarities in the demographic data, monitoring media coverage, blogs, reviews, articles and their geographic location as well as traffic on artists website are things that today's artists cannot overlook. Using these tools and data when planning a tour or even single shows can help artists be profitable and not end up playing for half empty crowds. Blindly touring from city to city or playing random shows in random cities is mainly seen pointless in today's digitalized world. Even though there are people in the music industry who think touring is still a crucial part of becoming a professional musician some think that there are other ways of finding your audience and connecting with them. (Robley 2014)

3.7 Artist Branding

“Music is part of the culture, and people shopping for music related merchandise are not limited to the music fans per se” – Marty Brochstein 2016

Brand is considered as a trademark or distinctive name identifying a product, service or organization, in this case artist image is considered as a brand and artist’s brand is considered as artist’s image. (Hillman 2018; thefreedictionary.com)

As an artist, you have an image, which basically means being a brand. You are a brand from the very beginning whether you like it or not. When people hear a song, they make the first perception of the artist. What emotions does the beat, sounds and lyrics evoke in a listener? Artwork, logo and photographs help steer those emotions towards the desired brand image. Going further; personal appearance, merchandise, interviews, social media presence, side projects/feats, live shows, stage design and so many more details are elements from which artist’s brand image consist of. (Hillman 2018; O’Reilly & al. 2013, 117-137) Artist’s brand is never fixed as it is constantly experienced, discussed and argued about by fans, media other people involved. (O’Reilly & al. 2013, 122)

Through the diversification of income in the digitalized music industry, artist branding has become more and more important. It’s not just about music. You need to have a brand that stands out from the rest. Justin Bieber, Jennifer Lopez, Jay-Z, Beyoncé for example are huge brands. They have clothing lines, fragrances etc. and big stars feature in to promotional campaigns for massive global brands. These examples have started with music and created a brand alongside their artist image, but it can work the other way around as well. I mean if David Beckham decided to make music, regardless of the quality of music, people would listen to it and buy it ‘cos it’s David Beckham.

3.7.1 Brand Collaborations & Sponsor Deals

In recent years there’s been more and more co-operations with brands and artists. Brands have begun to understand the power of music and artists when it comes to reaching the public. (McIntyre 2015) Artist’s know how to speak to their fans giving brands access to a whole new demographic of customers through these types of collaborations. This is much more effective and cheaper for companies than, for example, doing a mass marketing campaign. For artists, brand collaborations and sponsor deals usually bring in money as well as new audience. Brands can also fund videos, live shows and other creative ideas in which artist’s might not otherwise have the budget for. (O’Brien 2017)

Research shows that artist-brand collaborations are beneficial for both parties. According to Frukt's research 90% of 25-34-year-olds think brands add value to music. (Benjamin 2017) Other interesting facts can be found in a study conducted by AEG & Momentum World Wide. According to the study 83% of millennials have greater trust for brands that support a live music experience. 81% said that the coolest brand experiences they've had somehow involved a live music setting. 89% said they feel a brand is more authentic if they sponsor a live music event. 80% said live music events are the best way for brands to connect with millennials. These percentages are from people who had attended a live music event. Non-attendees had 30-40% lower percentage. Overall 37% of those who had attended a branded live music experience had a better perception of a brand involved in the event. (Machintyre 2015; Walsh 2017)

3.7.2 Merchandise

"Music has migrated to being more digital, so fans are craving something physical." - Mat Vlasic 2018

Music merchandise is an item in which artist's brand is visible. These items are normally sold on tour and online. Most common forms of merchandise are T-shirts, hoodies, jackets, posters, patches and caps. For many years merchandise was a way to make extra income while touring. After the turn of the century merchandise sales took on a new importance. Record sales dropped, and artists of all sizes needed alternative ways to make money. Since then branded merchandise has become increasingly important and more influential part in artists' brands. Even though most of music related merchandise revenue comes from sales on tours, there are new innovative ways for artists to sell their brand. Popular artists, for example "The Weeknd" and "Metallica", have licensed their brands in the use of big fashion brands such as H&M. Likes of "Taylor Swift" and "Fall Out Boy" opened pop-up stores where limited edition items are sold for a limited time only. These have been a massive hit amongst fans. Line of available merchandise as well as their prices have increased in recent years. Alongside a classic \$20-\$40-dollar printed T-shirt have come high-end fashion clothing. For example, The Weeknd -Sherpa jacket was sold for \$240 dollars and Kanye West sold boots for \$1050 dollars. This highlights the possibilities of a well-branded artist in today's music industry. (Cristman 2017; Medium.com; Browne 2018)

In 2016 global music related merchandise retail sales hit \$3.1 billion dollars. According to LIMA (The International Licensing Industry Merchandisers' Association) sales grew 9.4% from 2015. Music merchandise was one the fastest growing property type as the whole licensed goods industry itself saw a 4.4% increase.

3.8 Independent Artist's Revenue Streams

Independent artists have total control of their artistic careers as well as their finances. They can fashion their own business models and get to keep most of the profits, if not all. These factors can be regarded as the biggest upsides of being an unsigned artist. Being independent doesn't mean doing everything solo (even though it is the most profitable way). It's not unusual that independent artists have managers, booking agents or other partners to further their careers. And just like a "normal" company needs more staff as it grows, so does an artist. At some point it'll become a necessity to have people around you organizing and taking care of things.

Demonstrated in tables 3 & 4 are two scenarios how independent artist shares their profits with other parties involved.

Table 3: Independent Artist's percentages of income.

In this table artist writes and produces his/her songs on his/her own, doesn't have a manager or isn't involved with a booking agency or any other parties.

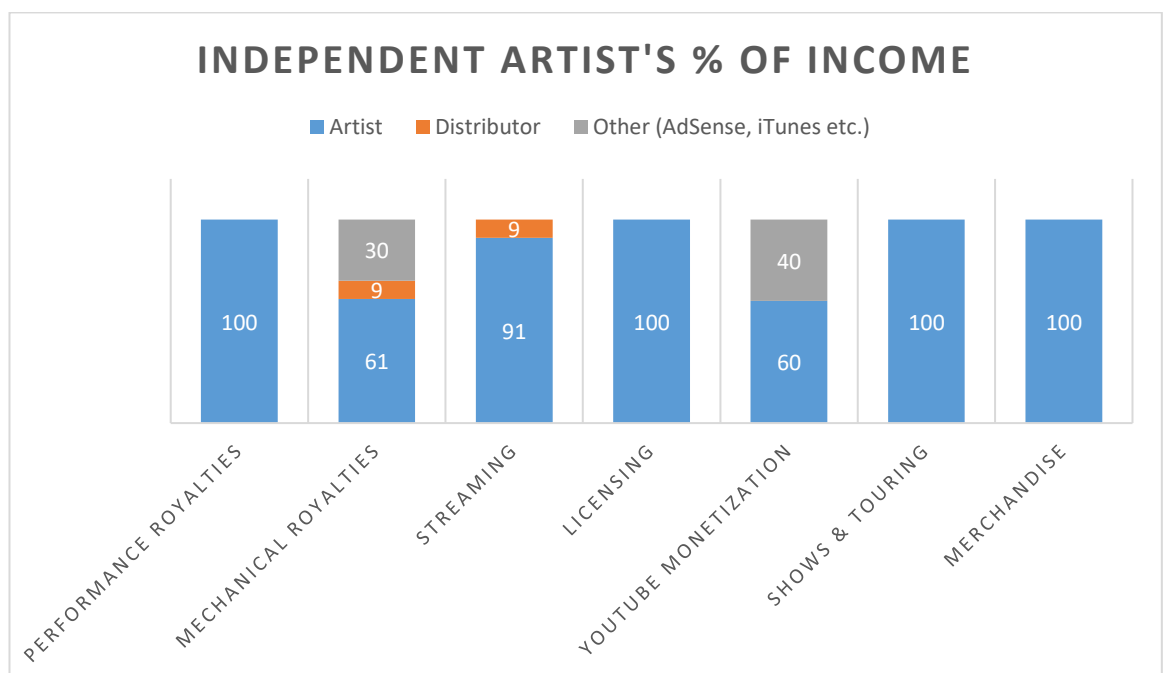
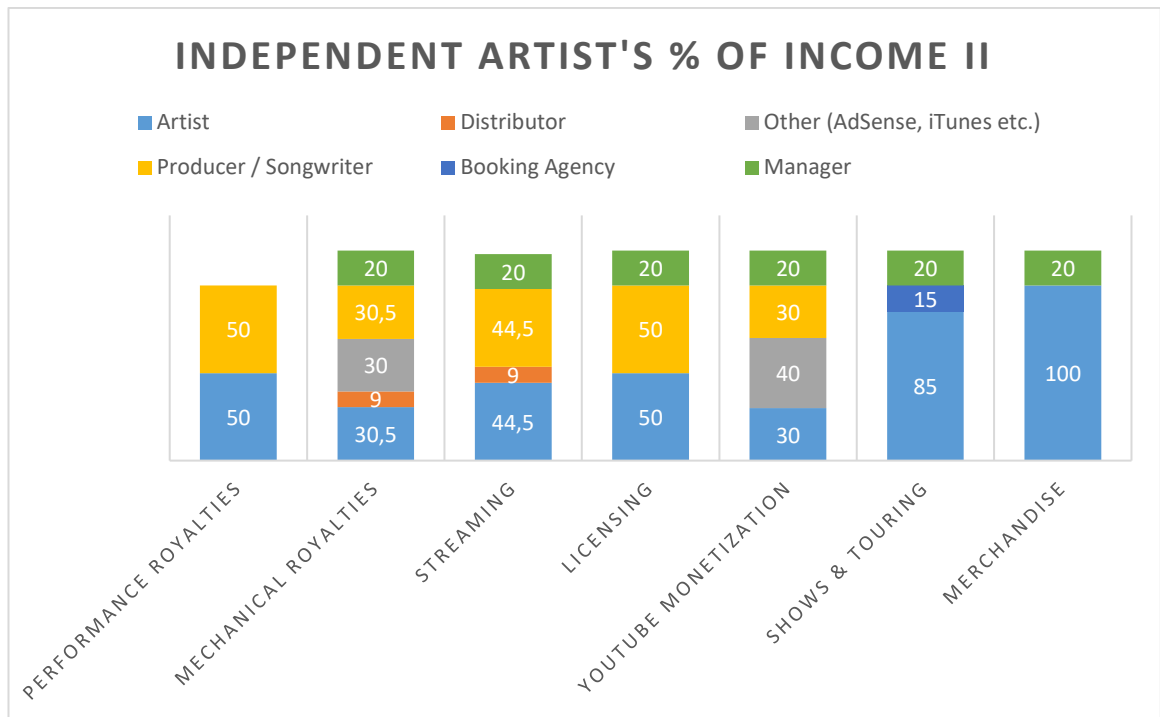


Table 4: Independent Artist's percentages of income II.

In this table artist has a producer who he/she writes songs with, has a manager and is involved with a booking agency.



3.9 Signed Artist's Revenue Streams

As a signed artist record label provides you with a lot of support. The support doesn't come cheap.

Usually when an artist is signed to a label they have an outside **record producer** (see Glossary 1.4) and other songwriters come in to get everything out of the recording process. Each songwriter takes a percentage of royalties. In today's music industry it is not uncommon to have 4 or 5 songwriters for a single song. More songwriters mean less royalties for the artist. Producer is another addition to those who swoops in for the royalties. Producers usually get a 3-4% royalty off artist's royalties. So whatever royalty percent the artist is left, producer gets his/her cut from that. (Salmon 2008; McDonald 2018 d.)

On tables 5 & 6 you see most common middlemen that a signed artist will have. These are made to help demonstrate the difference between independent and signed artists cash flows. (Compare with tables 3 & 4) Just to remind that each record deal is different, displayed percentages are based on an average that was concluded during the research.

These tables give you a fairly accurate perception of how revenue streams are shared between parties involved with the artist and record label. In most cases the number of middlemen is different than displayed on the tables. Much has to do with artists own involvement in writing and production process, type of artist (Band, DJ, Solo act etc.), regions where operating, popularity of artist and most importantly of the contracts artist has negotiated with parties involved. Tables are based on major label's '360° record deals' as '360°-deals' are today's industry standard.

Table 5: Signed artist's percentages of income.

In this table artist writes and produces his/her own songs. This can be considered as a **master deal** (see Table 1).

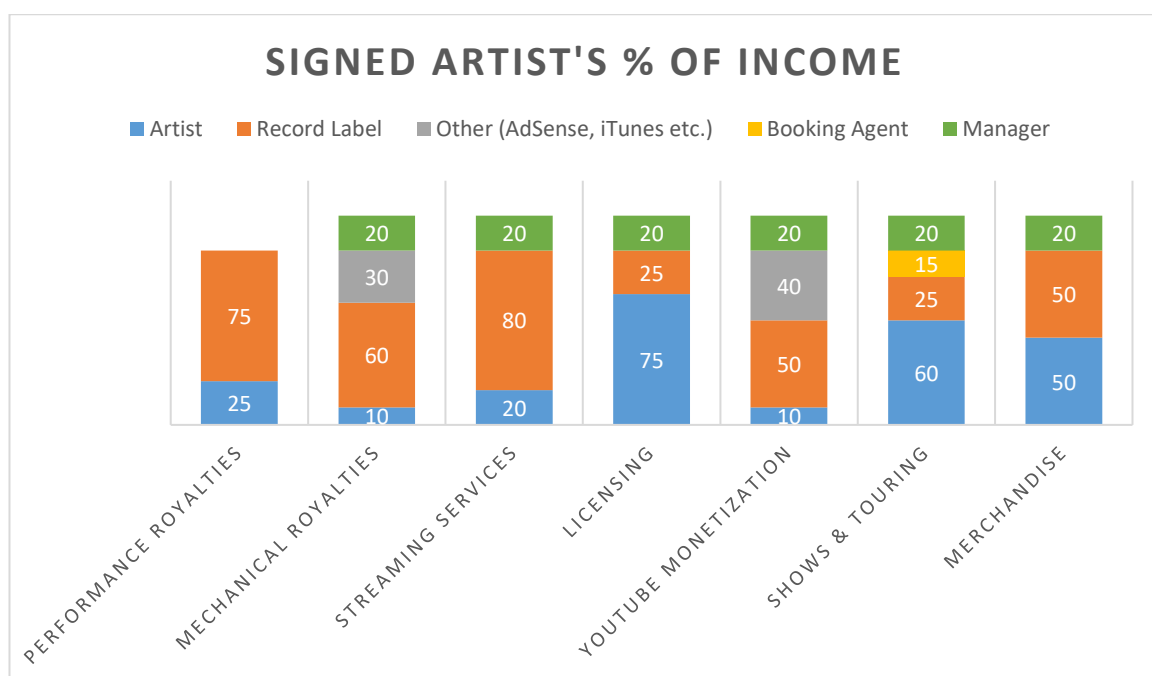
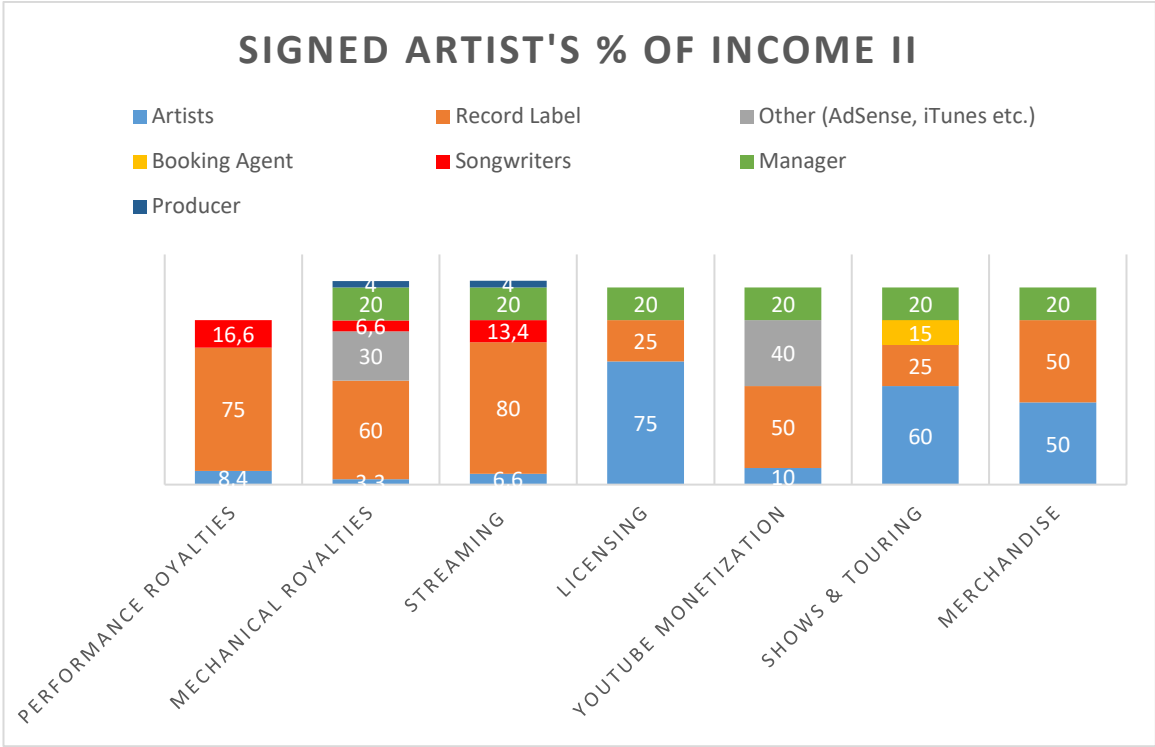


Table 6: Signed artist's percentages of income II.

In this table artist writes his/her songs with two other songwriters and an outside producer produces records. This can be considered as an **Artist** or a **Co-op Deal** (see Table 1).



4 Discussion & Conclusions

Today's music industry is a completely different one than it was 20 or 30 years ago. Technological development in the last two decades have revolutionized the way music is made, sold and consumed. These days artists need to find their listeners. People don't look for new music themselves as it is presented to them by machines, algorithms and through targeted marketing. Streaming services have become modern-day radio. Spotify playlists have a massive influence on what people listen to on a daily basis and in a way Spotify (as it is the biggest streaming service) has more influence on the industry than any record label. Just the other day (10 May 2018) Spotify removed songs of "R. Kelly" and "XXXTentacion" from their playlists for non-music related causes. (Gajanan 2018) This is what Spotify stated;

"We don't censor content because of an artist's or creator's behavior, but we want our editorial decisions – what we choose to program – to reflect our values" (Spotify 2018)

This is the first time anything like this has happened and highlights the power streaming services have over record labels and in the industry in general. First of many to come?

No one can deny the importance of non-music related aspects when it comes to succeeding as an artist, both artistically and financially. Creating interesting content on Instagram and YouTube is essential in developing artist's brand. In a way the number of social media followers has more influence than the music itself. What you represent as an artist need to be channelled, not just into music, but into things that enrich the whole brand image. As only a minority of people still purchase music, other than pay a monthly fee for streaming services, artists can't rely only on royalties as their only source of revenue.

During the research countless new things emerged that would have needed more attention and detailed research to get a complete picture of the music industry and its players. But in the beginning of the research I asked five questions that I wanted to get an answer to and managed to do so. I'll go through the questions and explain my conclusions what I've come to during this research.

Do artists still need record labels? And for what?

Can artists function without them?

No and yes. Artists don't NEED record labels. It is possible for an independent artist to function on their own, as kind of their own record label. Technology has made it possible for an unsigned artist to do basically everything that a record label does. Starting from the basics. Independent artists can record and produce their music with minimal amount of equipment, and it can be done anywhere, anytime and by anyone. There's no need for expensive studios or outside producers that usually comes along when signing to a label. Distribution can be done using online distributors like CD Baby. They are no different than a "normal" distributor and they'll distribute music to any available streaming or downloading service regionally or world-wide. CD Baby definitely isn't the only available distributor for independent artists as there are countless of other services available. Each have their own policies and rules but how they operate is similar. In today's music industry most of marketing is done on social media platforms and streaming/downloading services. Social media marketing is available for independent artist and it can be effective even with smaller budgets. Independent artists can hire the people they want to help further their careers and leave out staff that isn't necessarily needed in order to succeed.

All that said, there are major advantages when signed to a label. Biggest of them; MONEY. Okay, production and recording-wise the same quality can be achieved without investing hundreds of thousand dollars. Hit songs can be and are made using just a laptop! Of course, there's an advantage when working with industry professionals but not a necessity. When it comes to distribution, labels have their ways of getting their music on the hottest Spotify playlists and some guarantee of radio airplay. Labels have those "pluggers" who persuade (read pay) curators and radio broadcasters. It's hard to do that as an independent artist and lacking connections labels have. Not impossible though as some playlist curator's names and e-mails can be found with a little research or tipped by other artists. Getting through to them is a different task. But the biggest upside being a signed artist is marketing. Sums used for marketing are huge if the amounts I found are anything to go by. Plus, the connections labels have with Spotify, Apple, radio stations, other industries etc. These are almost impossible to get as an independent artist, at least as a small indie artist.

In a nutshell; only thing that artists need from labels in my opinion is money and connections.

Is it possible to make a living as an independent artist?

Can it be more profitable to remain as an independent artist?

For starters a couple of scenarios and calculations comparing unsigned and signed artists' revenue streams.

Referring to tables 3,4,5 & 6. Hypothetical situation; 4 different artists, artist A represents table 1's scenario, artist B table 2's scenario etc. Each artist makes \$5000 from each of the revenue categories presented, a total of **\$35,000** dollars. This is how much each artist is left with:

- Artist A (Independent, doing everything solo)
\$30,600
- Artist B (Independent, with manager, producer/songwriter & booking agency)
\$16,100
- Artist C (Signed, produces and writes own music)
\$10,250
- Artist D (Signed, has outside producer & songwriters)
\$8600

How many Spotify streams are needed to generate a net profit of **\$1000** dollars for the artist? Referring to tables 3-6

- Artist A (Independent, doing everything solo)
ca. 303,000 streams
- Artist B (Independent, with manager, producer/songwriter & booking agency)
ca. 670,000 streams
- Artist C (Signed, produces and writes own music)
ca. 1,400,000 streams
- Artist D (Signed, has outside producer & songwriters)
ca. 4,220,000 streams

How many single iTunes Downloads are needed to generate a net profit of **\$1000** dollars for the artist? Referring to tables 3-6

- Artist A (Independent, doing everything solo)
ca. **1600 single downloads**
- Artist B (Independent, with manager, producer/songwriter & booking agency)
ca. **3400 single downloads**
- Artist C (Signed, produces and writes own music)
ca. **10 100 single downloads**
- Artist D (Signed, has outside producer & songwriters)
ca. **30 600 single downloads**

It is hard but possible to make a living as an independent artist, but I think you need to be a solo artist to do that. Of course, anything is possible but splitting profits 2, 3 or 4-ways with band mates and making enough money seems unlikely. Let's consider \$2000/month as a "living" in this case. Streaming royalties and money from downloads aren't enough to make a decent living in most cases so artists need other sources of revenue. To make \$2000 per month just from Spotify streams about 600,000 monthly streams are needed. Let's assume that artist has 10 songs on Spotify so the needed number of monthly streams per song is 60,000. That makes for 2000 daily streams per song and 20,000 daily streams overall. That's a high number to achieve so other income sources are welcome. To compare, daily streams for Spotify's top 200 most streamed tracks on 11 May 2018 range from 5,7 million to 628,000. (Spot on Track 2018) To achieve 20,000 daily streams independent artist's songs need to get featured on many Spotify's curated playlist and algorithm-based playlists. Of course, the more songs artist has on Spotify it comes more probable to achieve those numbers and each new song brings more listeners to old ones. There are other sources of income that accompany Spotify royalties so 600,000 monthly streams isn't needed to make that \$2000 a month. Revenue from other streaming services and downloads will bring in money as well.

Making money from YouTube with music seems difficult. Music related keywords don't have much value meaning advertisers won't pay that much for ad-clicks. YouTube views pay a lot less than streaming services so view counts on artist's YouTube videos need to be very high to make decent sums of money. YouTube don't have similar playlist system like Spotify has. There's no YouTube curated music playlists that people listen to from which you could get views. Getting views on YouTube relies on people sharing videos or

using money for YouTube marketing. Making videos that are related to high-value keywords is a way to get more revenue but that can clash with artist's image and artistic values.

Merchandise sales are a good source of revenue but if artist isn't that popular it might be hard to achieve regular sales. Fans in today's digitalized music world want to have something physical that represents the artist. Since they don't own music, they want to own something else. Growth in merch business during last few years back that up so independent artists somehow need to play the merch game as well. Limited edition merch when releasing an album might be a good way to get extra income. Manufacturing for example 100 hoodies that you know fans will buy. This way you know exactly how much the net profit will be. If there's a possibility to do brand collaborations of any kind I think independent artists need to accept any form of sponsorship. Especially when starting out there's no room to be picky. Brand collaborations can produce big benefits, both financially and artistically.

Live music industry seems to keep growing bigger and there will be more demand for live performances. Well planned tours can be profitable and benefit artists in many ways. But there's no point in touring if you don't have fans and know people are going to show up to the shows. Locations for live performances need to be chosen based on where fans are located. Randomly touring from city to city is not beneficial and can even result in financial losses. Independent artists need to find new and creative ways to take advantage of people's willingness to spend money on live experiences. Expanding brand collaborations to artist's own live events could be a great way of minimising costs and getting more people attending shows. Playing busy nightclubs or festivals where there is guarantee of crowd attendance is always beneficial. A great way to reach new audience plus, performance royalties are paid.

Licensing music can offer artists fast profits compared to royalties. I'd say every independent artist should try to license their songs. Getting one song licensed can bring in more money than millions of streams and free exposure to big audiences. Plus, each licensed song can boost streaming and download numbers and spawn more licensing opportunities.

As you can see from the calculations made above the volume of streams and downloads need to be substantially higher to achieve same profits as a signed artist. If as an independent artist you manage to get consistent streams and downloads to make enough money and have a solid fan base it might not be ideal to sign a record deal. Signing a record deal means giving away a considerable cut of profits. Question that artist needs to ask

themselves is that is a record label going to bring in that extra volume which is worth the percentages that you are going to give away? If you already have a solid follower base on social media platforms or have a good track record of streams and downloads signing to a label could just mean giving away your profits. For example, if Mr. X had 100 000 followers on Instagram and decided to release a single. How many of those would go and listen to it on Spotify right away? Let's say 15-20%. Through marketing and advertising you can get another 20% to listen to it at some point. The "die-hard" fans will share it to their friends -> more exposure. As more and more people listen and hear about it and through clever marketing rest of the following base (not every single one of course) will get excited and eventually listen to the song. Plus, people that are not your followers and listen to the song. And if you know the right people you can get media exposure and Spotify will feature your song in playlists -> more streams. Let's say in the first week or two Mr. X would get 100 000 streams on Spotify. Per one Spotify stream artist gets paid an average of \$0.0036 cents if they own all the rights to their music. (Artist A/Table 3) So, for 100 000 streams Mr. X would receive about \$360.

Then again when you sign to a label you get advance payments and they ensure that you can focus on making music and don't need to worry about finances. In a way you might not be making more money, but you are still in a better place financially. That all depends on where you are as an independent artist. So I'd say it's good business to sign a record deal if you don't have followers, streams, downloads etc. But if you have been able to achieve some level of success being independent and it looks like it's probable to grow bigger on your own then there's no point in signing a deal. So, it can be more profitable to remain as an independent artist, but you need to be somewhat popular.

Is it realistically possible to achieve same levels of success being independent as being signed?

"Ya'll steady tellin ppl they need a label/publisher/distributor to achieve success as an artist. Thats a lie." – Chance The Rapper 2017

It's difficult to make it as an independent artist and even more difficult to achieve same levels of success as signed artists. But it is made possible by technological development and changes in the industry during the last 15 years. One standout artist today is "Chance The Rapper" who's achieved massive success being an independent artist and he encourages indie artists to have patience and not lock themselves into labels. I think it's likely that in the near future there will be more independent success stories. Labels continue to

lose their current position in the industry or they transform into something new. No one can tell what music industry looks like in 10 or 20 years, but now more than ever, artists have the power to change the industry. After all they're the ones behind the music we all love.

Figure 13: Chance The Rapper celebrates his award for Best Rap Album at the Grammys 2017



(Independent 2017)

Thoughts on the process and what I learned

The whole process for me was quite long and stressful. That's mainly due to my own time managing. The subject itself is something I'm very interested in. I found some very fascinating and helpful information along the way. Process has taught me that being focused on several things at once is something I need to steer away from in the future. During the whole process I've been working on couple different music productions simultaneously, so writing this thesis was never the number one priority, until it needed to be when time was running out. When something I'm working on is not finished, I keep thinking about it and can't solely focus on the thing I'm working on at the moment. So, every unfinished business adds to the stress levels and each project suffers somehow. On the other hand, I found out that I'm able to work effectively under the pressure of a deadline. I should be able to set those deadlines myself and stick to them. Planning things beforehand is something I've never really done. Working with these several projects for over 6 months showed me that it is something I need to get accustomed with. Using a calendar or something to make a monthly plan for projects happening at the moment probably would be a good idea. From now on I'm hopefully able to manage my time better, get things finished faster and not let things suffer off each other. So, even though this was a stressful one, looking back at the process I've learned a lot.

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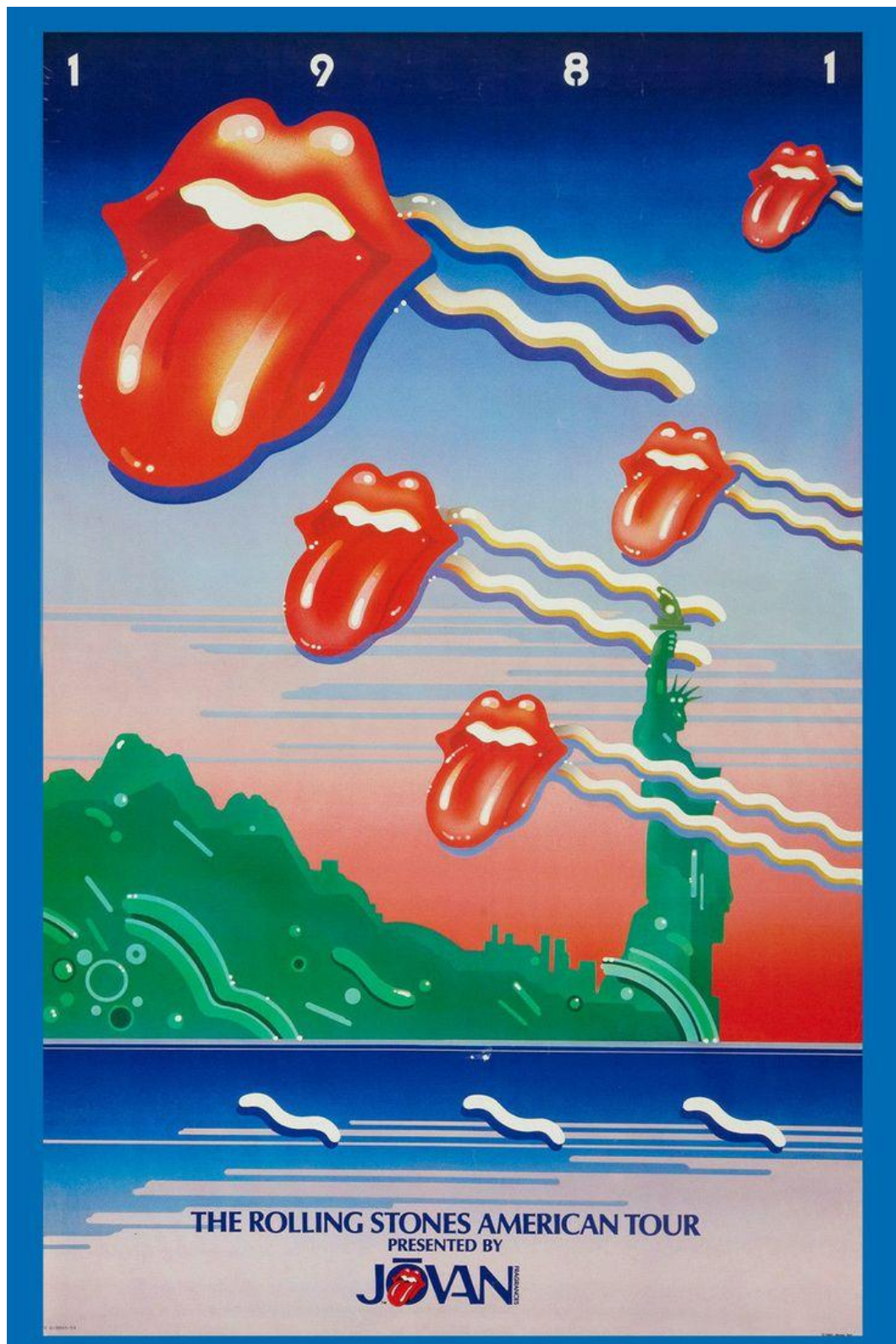
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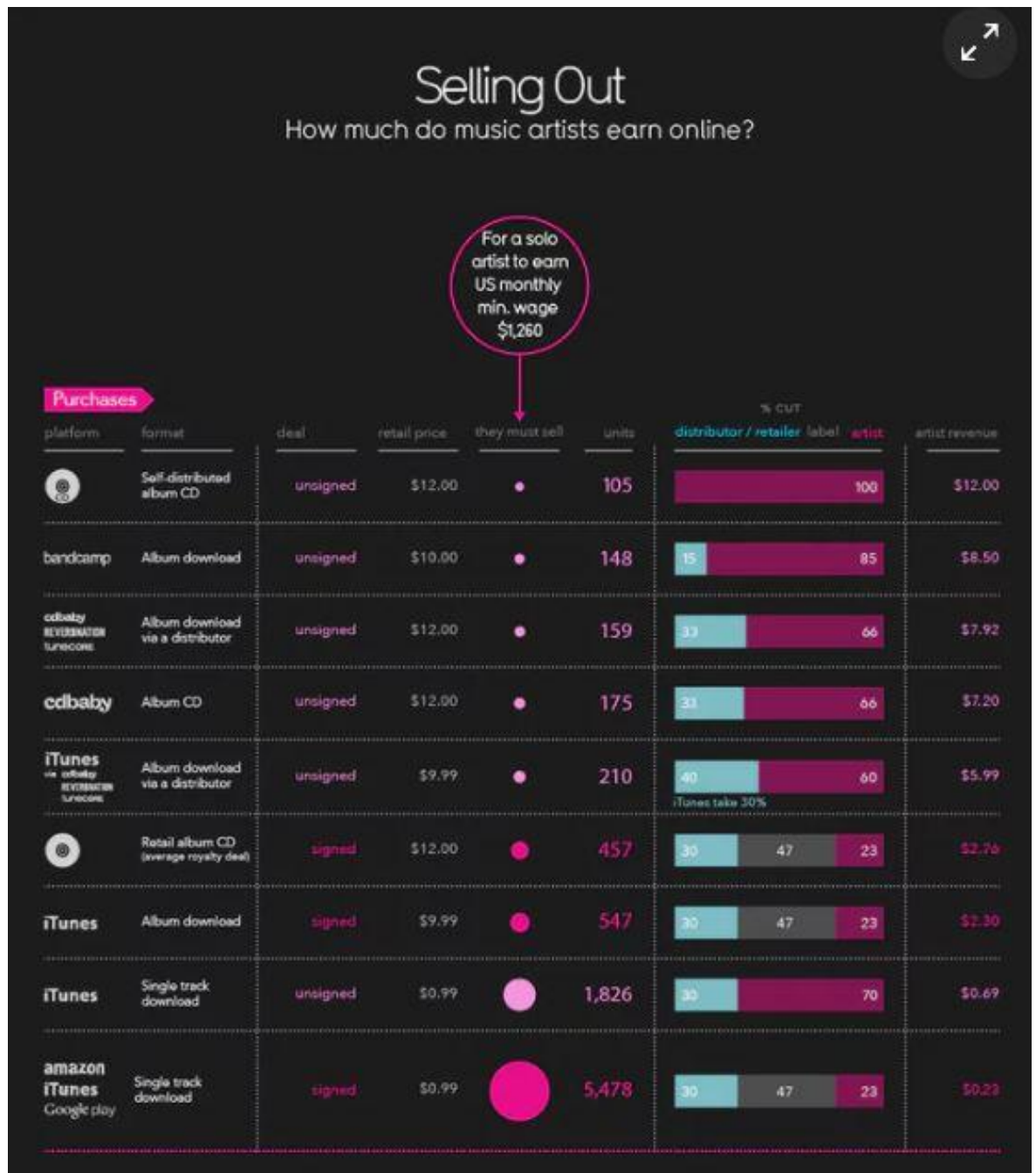
Appendices

Appendix 1. The Rolling Stones / Jovan Poster 1981



Appendix 2. How much do music artists earn online?

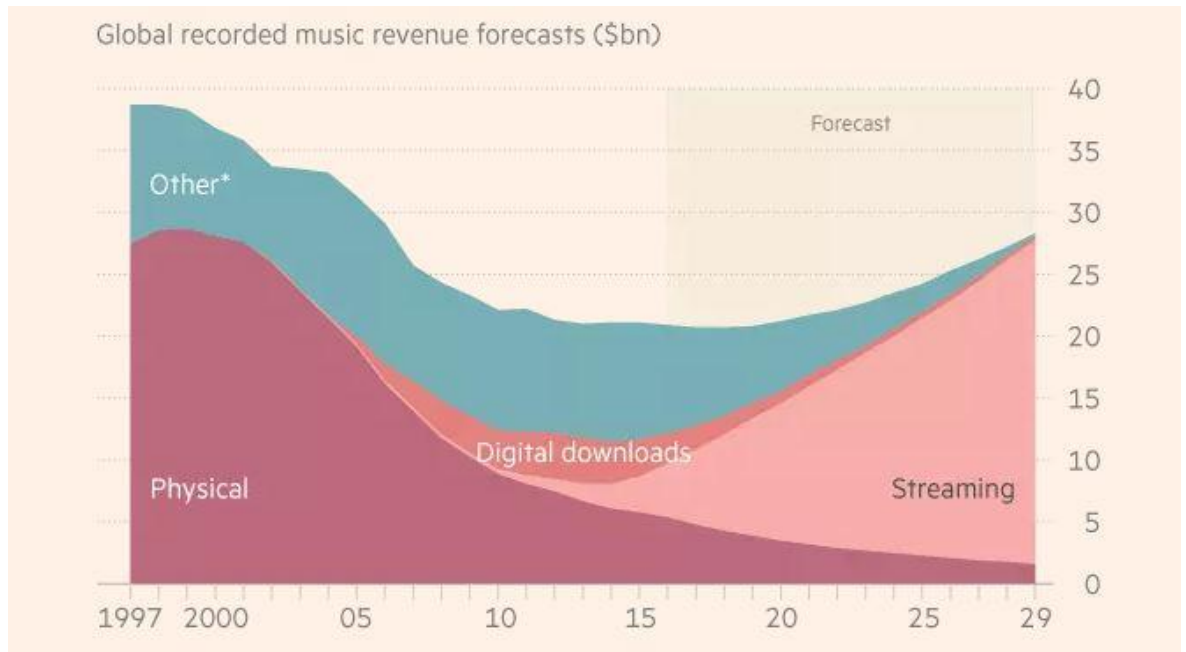
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Appendix 3. Global Recorded Music Revenue Forecasts

Financial Times

<https://www.ft.com/content/cd99b95e-d8ba-11e6-944b-e7eb37a6aa8e>



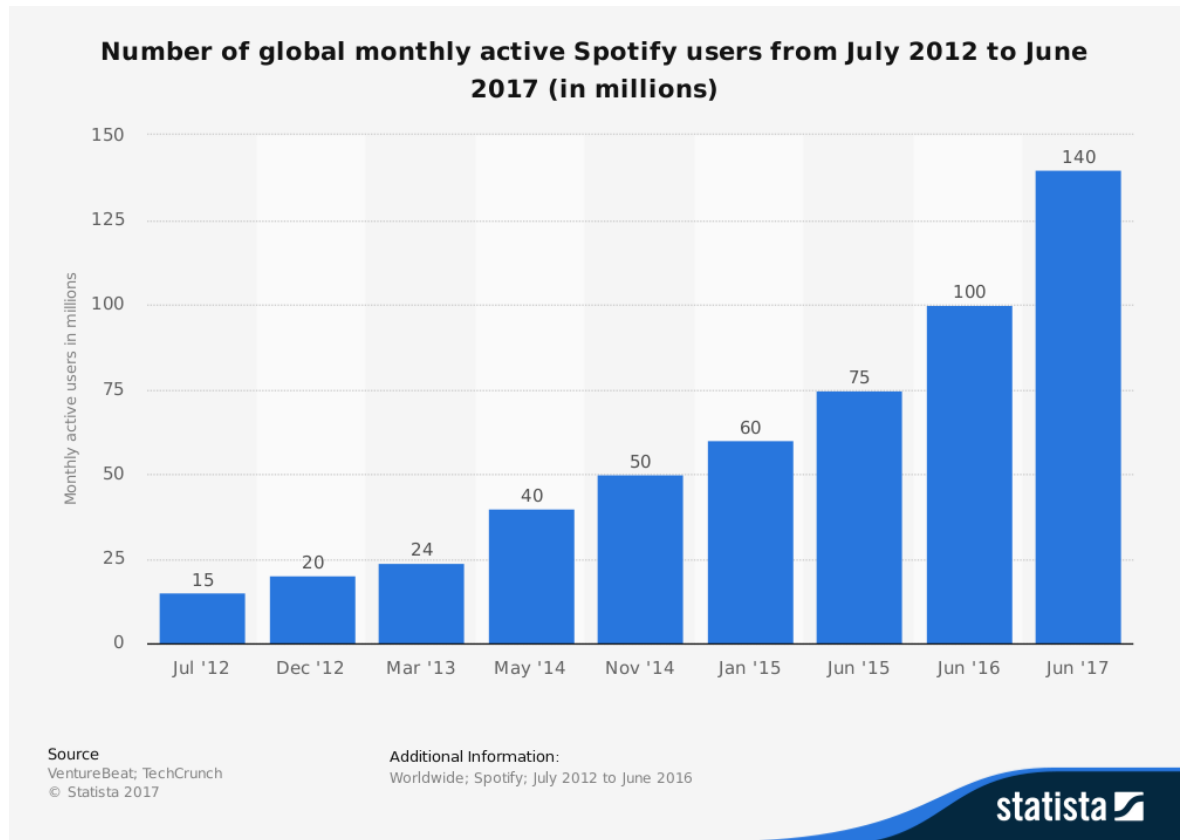
Appendix 4. Global Music Market 2016 in Numbers

IFPI Global Music Report 2017



Appendix 5. Number of Global Active Spotify Users 2012 – 2017

Statista.com (2017)



Appendix 6. Most Expensive Keywords in Google AdWords

<https://www.wordstream.com/articles/most-expensive-keywords>

